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PRESIDENT
HOME LIFE INSURANCE COMPANY
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ADDRESSES AND PAPERS



ADDRESSES AND PAPERS

BY

GEORGE EDWARD IDE

PRESIDENT OF THE
HOME LIFE INSURANCE COMPANY

1898 - 1914

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HOME LIFE
INSURANCE COMPANY

PRIVately PRINTED
THE RIVERSIDE PRESS CAMBRIDGE

1914

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NOTE

The following addresses and papers on life insurance and other subjects have been compiled in this permanent form as being primarily of some interest to my friends and associates in the Home Life Insurance Company. They cover a period of revolutionary change in the general conduct of our business and may in the future have some historical value on that account.



CONTENTS

DIVIDEND-ENDOWMENT: WHAT IT MEANS	1
“THE LIFE UNDERWRITER”	7
DIVIDENDS IN LIFE INSURANCE	21
THE PRESENT LIFE INSURANCE INVESTIGATION AND ITS EFFECT	27
THE INSURANCE INVESTIGATION	38
THE INSURANCE INVESTIGATION AND THE HOME LIFE INSURANCE COMPANY OF NEW YORK	57
PROPOSED AMENDMENT OF THE NEW YORK INSURANCE LAW	67
THE FUNDAMENTALS OF LIFE INSURANCE	82
THE LIFE INSURANCE SITUATION	96
THE DISTRIBUTION OF SURPLUS TO POLICY-HOLDERS AS AFFECTED BY THE INSURANCE LAW OF THE STATE OF NEW YORK	108
GOVERNMENT INVESTIGATION AND REGULATION	126
EFFECTS OF THE NEW YORK STATE INSURANCE LAW .	148
REMARKS AS TOASTMASTER	156
THE PROPOSED INCREASE IN FREIGHT RATES	167
COMPULSORY SALE OF STOCKS	172
THE SACREDNESS OF TRUSTEESHIP IN THE INVESTMENT OF LIFE INSURANCE FUNDS	179
THE RELATION OF EXECUTIVE OFFICERS AND FIELD MANAGERS	191

CONTENTS

THE WORK AND PROBLEMS OF THE EXECUTIVE DEPARTMENT	198
ADDRESS AS CHAIRMAN OF THE SEVENTH ANNUAL MEETING OF THE ASSOCIATION OF LIFE INSURANCE PRESIDENTS, HOTEL ASTOR, NEW YORK, DECEMBER 11, 1913	220
THE AGENT AS A STUDENT OF CONDITIONS	226
PRESENT BUSINESS CONDITIONS	235
ADDRESS AT THE DEDICATION OF WRIGHT HALL, YALE UNIVERSITY, NOVEMBER 23, 1913	243

ADDRESSES AND PAPERS



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DIVIDEND-ENDOWMENT: WHAT IT MEANS¹

YOUR attention is called to the following item under "Liabilities" in the statement of the Home Life Insurance Company for the year ending December 31, 1897: "Present value of all dividend endowment accumulations included in the valuation made by the New York Insurance Department, 4 per cent interest, \$424,549." This item of liability, which in last year's statement amounted to \$372,923, and which is rarely ever found in the statements of life insurance companies, has a significance that is not appreciated until it is thoroughly understood. It represents the only sound and proper method of handling deferred dividend funds.

All are familiar with the "tontine," "semi-tontine," "accumulation," "distribution," or "deferred dividend" plan, by which dividends on policies are allowed to remain with a company for a given period (usually ten, fifteen, or twenty years) and are then paid to the policy-holder if he be living

¹ Pamphlet issued in 1898.

TO WHICH
ADDRESS

at the expiration of the period and if the policy be then in force, but few persons have ever asked the question: "What is done with that fund by the companies in the mean time?" No question concerns the insured more vitally. Divesting the matter of all technical phraseology, the insured knows that if he dies the face of the claim must be paid and that to provide against that contingency a constantly increasing fund (called the "reserve") is laid aside and held as a liability by all companies. He also knows that if he lives to the expiration of the deferred dividend period, the dividend accumulations must be paid to him, but he looks in vain for any provision in the liabilities for that contingent payment. If one is guarded against, why not the other? They are both payments due at a future time if certain conditions are fulfilled. If an absolute liability is assumed by the companies against one class of contingent future claims, why not against the other? What is the practice? Most companies ignore this liability entirely until the payment is actually due; a few carry an implied liability of this sort, not absolutely, but with conditions attached, so that the final disposition of the fund lies in a great measure in the hands of the company, but the Home Life Insurance Company has from the very inception adopted a unique system, which is absolute in its provisions and complete in its protection. The fact that other com-

panies are now considering the advisability of changing their methods to correspond more nearly with those adopted by this company renders it proper that a clear exposition of its system should be given.

On every participating policy issued by the Home Life Insurance Company a dividend is apportioned annually, whether that policy is taken out upon the annual cash dividend plan or whether the dividends are allowed to remain with the company under the dividend-endowment (deferred dividend) plan. If the latter course is adopted, the following provision will be found in the policy:—

Each and every dividend of profit which may be made on this policy shall be retained by the company and be applied to the purchase of simple endowments in favor of the holder, which shall mature and be payable only at the expiration of —— years from the date of the policy if the policy be then in force, etc.

In other words, allotment of the deferred dividend is not postponed until the end of the deferred dividend period, but every year the policy is credited with its earnings; those earnings are used to purchase an endowment payable at the end of the deferred dividend period; and the present value, or, in other words, the reserve on the endowments so purchased is carried by the company as an actual liability in its statement. As this application of the dividend is made each year at the time of its

declaration, it is possible under this system for the insured to ascertain, upon inquiry of the company at any time, the amount of accumulation earned under his policy, and these accumulations are not subject to any future change or rectification by the company.

Herein lies the unique feature of the method adopted by the Home Life Insurance Company in the treatment of this most important matter. It is possible under this system for the policy-holder to learn from year to year, if he desires, the growth of his investment and to satisfy himself as to the manner in which he is being treated by the company, and therefore the company must under its plan maintain the reserve upon these deferred dividends and thereby still further protection is offered to the insured. You will notice, as stated above, that this fund has increased during the year 1897, \$51,626, and that the total present value is \$424,549, so that its importance will readily be appreciated.

A few years ago an Insurance Committee of the Legislature of Massachusetts undertook an investigation of the manner in which these deferred dividends were handled by the various companies, and the press of Boston commented upon the matter at some length. The following is quoted from one of the prominent Boston dailies issued at that time:—

One of the points raised by the petitioner was that the tontine companies never considered dividends, under

the tontine system, which are not paid annually, but are deferred for a period of years, a liability, but invariably quoted them as a surplus of the company. Among the many companies represented, but one resented this imputation. This was one of the old companies of the country, the "Home Life" of New York, which, though it transacts a deferred dividend business when the policy-holder so requests it, prides itself upon the fact that it never quotes deferred dividends in any other manner than as a liability, and that it glories in a surplus which, under the strictest interpretation, cannot be construed as anything but a surplus.

' In other words, every claim which may arise under the policy contract, either in the event of the death or life of the insured, is guarded against and provided for by a system, simple in its operation, and the growth of the investment is always open to the inspection of those most interested, namely, the insured.

It must also be noted that this system, as is so aptly expressed in the above quotation, maintains "a surplus which, under the strictest interpretation, cannot be construed as anything but a surplus." It is not subject to depletion in the future when deferred dividends become due and payable as they have been provided for in advance. It is what it claims to be, a surplus over and above all liabilities, actual or contingent.

When comparisons of the relative strength of various companies are made, when questions arise

regarding the rate of interest upon which premium calculations are made and reserves computed, it is only proper and wise to ask first of all what provision has been made to meet these future accumulated dividends which will certainly have to be paid unless the policy-holders die or the policies are not in force when that due date arrives. There are many more important problems to be met by insurance managers than the maintenance of the rate of interest on their investments, and none is of more moment than the manner in which they treat the vested interests of those clients who have placed in their hands the care of the dividends earned upon their premiums and who are eagerly waiting the distribution to be made at a future date. The Home Life Insurance Company is fortunate, indeed, in having met this issue frankly from the very start and stands to-day preëminent as the one company that makes its deferred dividend apportionment each year and carries on its books a liability to meet future claims from this source. This is the reason that its "deferred dividends" are called "dividend-endowments," for they are endowments and are so treated on the books of the company.

“THE LIFE UNDERWRITER”¹

I NEVER yet have met a good insurance agent who was not a good talker; in fact, I have always considered that gift as a *sine qua non* of success in your profession, but I have had no occasion to test your endurance as listeners. I therefore appreciate greatly this rare opportunity which you have now extended to me and shall not abuse your courtesy.

Your worthy president, in offering me a hearing before your body, gave me the choice of my subject, and I have selected a theme which opens the widest range of discussion. Obviously the topic is one with which you are all familiar, but no harm can be done in restating old truths.

In order to enter at once upon our subject, let us inquire what is the meaning of the term. The Standard Dictionary, which, in fact, as well as in name, is accepted as authority, states that “to underwrite is to execute and deliver a policy of insurance.” From our standpoint this definition is inaccurate, as we all are aware that it is not the province of the life underwriter to execute a policy of insurance. The latter part of the definition, however, covers succinctly all that is required in your pro-

¹ An address delivered before the National Association of Life Underwriters, July 12, 1899.

fession. You are expected to "deliver policies of insurance."

Under the terms of all policies the delivery of a contract of life insurance can only be made upon one basis — that is, upon the payment of the full premium. Our definition may, therefore, be slightly enlarged, and will read as follows: "A life underwriter is one who delivers policies of life insurance and who collects the full premiums."

Whatever the practice may be in certain quarters, I maintain that any man who, in the pursuit of his profession, does not meet the requirements of this definition, is not entitled to be included in your association, or considered in the presentation of this subject, and it is well to note that this definition eliminates, as it should, the so-called agent who simply "writes" business and does not deliver it, as well as the "trader" and the "rebater."

In my treatment of this theme I wish to have it clearly understood that I intend to approach it in a practical way. Such abuses as exist will be mentioned, but I will not consume your time by introducing to you an ideal life underwriter under imaginary surroundings. I merely hope to show briefly what the underwriter should be and what can be done to make your profession productive of the greatest good under existing conditions.

If we could eliminate the evils from the profession of life underwriting the rest would take care

of itself, and I propose to mention some of these evils.

First, rebating: I have stated that a rebater is not a life underwriter, and therefore you may wonder that I devote any attention to him, but as a factor in the situation he must be considered. The rebater is not a producer in any sense. He is a parasite, deriving his meager sustenance from the fruit of others' labors, and undermining the healthy growth of the general system. "Evil he is and evil does." Why does rebating exist? Some say because the public insist upon it; others because the companies tacitly, at least, encourage it; others because high commissions have fostered it. Grant, for the sake of argument, that each of these conditions has assisted in its culture; none of them is the cause. The cause of rebating is lack of honor and lack of justice in business relations — shall I use the simple term dishonesty? The official who winks at it, the insured who accepts it, and the agent who gives it, are, in my opinion, untrue to themselves and dishonest to their associates. It is an easy way to dispose of one's goods, and the temptation is often well-nigh overpowering, but it is not fair and has no place in your system. I know it has its defenders, but I have never heard an argument in support of it that could not be reduced to lukewarm justification of its use for purposes of self-defense.

Its advocates will tell you that the commission

is the property of the agent, and that he has the right to dispose of it as he sees fit. This seems at first glance plausible, but it only half-states the case. Is the commission absolutely the property of the agent, and for what purpose is it given? Under the present system of large first commissions, it must be remembered that the company discounts the future in favor of the agent in order to give proper remuneration for his services, trusting to his honest work to insure a stable business which will, in the future, be remunerative to the company, and reimburse the company for the commissions advanced. Without such assistance few agents could hope to write sufficient business to provide a proper income for their daily needs. Any diversion of this commission into other channels than those for which it was specifically given defeats the intended object. Further, the agent who gives the rebate and the applicant who receives it are not the only parties interested in the matter. The company is interested, because rebated business is not stable and is therefore unprofitable, and all other agents are interested because of the demoralization of rates which must inevitably follow. If you wish to understand what a rebate is — imagine if you can what the agent did who offered the *first* rebate. It is notable that his name is not emblazoned on your rolls of honor. He, in that initial transaction, had no motive other than a de-

sire to take an unfair advantage of some competitor. His fertile brain discovered, in the concession to his client, a means of surreptitiously ruining his rival. You may rest assured that he was not so proud of his ingenuity that he unfolded his discovery to his fellows. The rebate has been and always will be the child of darkness and dreads the light. Even its strongest defenders do not advocate its open employment.

How can it be prevented? The solution of this question is by no means simple. Compacts between companies, no matter how sincerely entered into or how strictly enforced, will act as a restraining influence and that is all; to insert in the policy contract restrictions on this point might deter some applicants from accepting a policy under rebate conditions, but would accomplish nothing further; the persistent and untiring action of the companies themselves will do much to lessen its popularity; but none of these is a remedy. We must go deeper and seek out the real source of the trouble. Restraints and checks are valuable and I am strongly in favor of them all, but we are looking for the cure. I said a few moments ago that this was intended to be a practical discussion. As a practical man I state it as my firm conviction that this disease cannot be eliminated until the life underwriter is educated to believe that the scheme, in its inception, is dishonest, and therefore unworthy of his sanction.

In proportion as your motives are sincere and honest in just that proportion will this evil diminish, and the most effective method of attack for you will not be specific in its character, but must be by cultivating an *esprit de corps* that will not tolerate any underhanded methods of which this is, in my opinion, the most glaring example. It does not require the millennium to make this state of affairs possible. It gives me courage to look back and see the progress toward dignity and manly strength which your guild has made even in the last twenty years. Can you afford to believe that further development on proper lines is not practicable, that it is the mere hope of dreamers and of visionaries? In your national association, in your local bodies, and, what is still more important, in your individual capacity, you have a power which, if exercised on the lines I suggest, would be practically resistless. Exercise it constantly and persistently for the uplifting of your work and you will be amazed at its efficiency. Am I relying too strongly on the character and ideals of your body? I think not.

Some years ago I had an experience in one of our large cities which made a great impression on my mind. I called upon a friend, a local merchant of large business experience. He informed me that he was contemplating increasing his line of insurance, gave me the name of the agent with whom he was negotiating, the description of the kind of policy

suggested, and stated that it was arranged that he should pay only twenty-five per cent of the premium. This agent was a man of influence in the city, a general agent with a large territory under his control. During my stay in the city I attended a luncheon given by the local underwriters' association. The subject discussed was "The Rebate," and the most eloquent postprandial orator was the agent above referred to, who inveighed against the evil in severest terms. He was also an officer of the Association, but his reputation as a practical rebater was notorious. Now, on account of his high position, the gentlemen of that association did not have the courage to meet the issue, investigate these vague rumors, and discipline the offender. On the contrary, for some time he continued to receive at their hands all the honors which they could bestow upon him. This, I fear, is no peculiar case. It may be one of many.

If you have not the courage to meet this issue fairly without regard to rank or station, it is best to leave it alone. If you are not prepared to stand together and stamp it out, then you have no right to raise your hand against the other abuses which have arisen or may arise. But in your estimate of men remember that the agent who places a vast volume of business by selling it below its cost is not an underwriter in any sense, and would not in any other line of trade be considered an able business man.

In short, this is my position on this important question. If high pressure encourages rebates (as it does), stop it, and this is largely to be done by the executives of the companies. If bonus commissions foster it (as I believe they do), eliminate them from all contracts. If active and fearless surveillance by your local organizations is of any avail in suppressing the evil, cultivate such investigation by every means in your power. But above all, bear in mind the dignity of your profession and the intrinsic value of the goods you sell, and remember the ruinous effect upon the public mind of establishing local bargain counters for the sale of life insurance policies. When rebating causes the rebater to lose caste among his fellows, it will cease, and not until that time.

Another evil is "improper competition." Loyalty to one's own company is necessary to success, but much harm is done to the general growth of the business by the bitter attacks against rivals which are sanctioned in certain quarters. I am not prepared to say that the companies themselves are altogether blameless in fostering this evil. Confidence in the strength of concerted action, the belief that our interests are common, is the ground of your organization, and you should, in the pursuance of your work, remember that you are all allies as well as rivals. Comparisons of policy contracts and of the relative strength of the various com-

panies, reviews of their past records as affecting the policy-holders' interests, are all legitimate, and add zest and variety to your work, and I do not intend to discourage such proper competition; but the bitter invective, which is too freely employed, the misleading use of the too popular "ratio," the distribution of so-called "fighting" literature, the wanton distortion of facts, the reiterated claim to superiority in all departments, are weapons of weakness, fit only for the inexperienced or those who have little real belief in their own power. You certainly cannot inspire the public with confidence in the general system of life insurance by stating that your company alone is reliable and that you are the one ideal agent. The habit of criticism and detraction of others grows with time, and nothing can be more ineffective in results than the ever-increasing egoism which inevitably follows such a line of conduct.

My attitude before you is by no means to be one of criticism only, and I desire to speak of some of the salient elements which make your profession both honorable and responsible. The growth of life insurance has been so gradual that few of us realize how complex it has become. You no longer are offering simple protection against the economic loss caused by death. It is your province to study the business and domestic life of your client and to offer to him that particular form of policy which

exactly meets his case. I often pause in admiration as I consider the talents required to do this successfully. You must understand what the ordinary chances are in every line of commercial life which you encounter; you must be able to gauge the financial ability, both present and prospective, of your client; you must, without displaying any undue inquisitiveness, learn all about his domestic needs and the money value of his life as a producer for his family; you must then select from the policies offered by your company that one which he should have and present it to him clearly, simply, and effectively; you must post yourself regarding similar policies written by other companies so as to be prepared to meet any comparisons he may offer; and then he must be persuaded to sign the application and pay the premium. But this is not all. If your work on this case is to be effective and a source of future assistance to you, every step must have been taken with such care that your new policy-holder will, from the date of the delivery of his contract, become your ardent supporter and an enthusiastic advocate of your company. This is familiar history to you all, but I have rehearsed it in order to indicate the varied demands which are made upon you in your work. Intelligence, knowledge of your company and of all others, perfect familiarity with the policy you are selling, tact at all times, absolute truthfulness so that the future may be to your

client the mere unfolding of your predictions, decision and courage at critical moments to enforce your points and demand recognition, pride in your calling and pride in your company, these are essentials, and it takes a well-equipped man to meet such requirements.

It will be worth your while to examine carefully yourself and every man engaged with you in your work and see whether these qualities exist in their proper proportion. These are the fundamental elements, and they may be included in the broad terms "intelligence and honesty"; intelligence which increases day by day, year by year, until you become a perfect encyclopædia of knowledge of men and of insurance affairs; honesty of the good old-fashioned sort; not mere technical honesty, which in spirit is frequently as false as bare-faced fraud, but open, candid, honorable, and just dealing with all men with whom you come in contact.

I have spoken incidentally of the complexity of the life insurance business as at present conducted, and herein lies the great power for good or evil which is vested in you as the expounders of the contracts you sell. The modern policy of insurance, with its options and guaranties, with its many so-called "features," offers to the unscrupulous every opportunity for misrepresentation or partial concealment of fact, as it is well known that the average insurer takes your statements as final and closes

the transaction on that basis. If through ignorance or dishonest intent the agent has deceived him, the company has gained a dissatisfied client and the insurance world at large has made an enemy. Exaggeration of prospective earnings, reckless estimating of future profits, false presentation of policy contracts by any agent in the business, are a source of incalculable injury to your guild at large. Too much stress cannot be laid upon the fact that your own business is imperiled by every irresponsible free-lance who, with glib tongue and ready wit, misleads and misdirects his clients. The more the companies attempt by varied contracts of insurance to meet every conceivable requirement of the insuring public, the greater will be the power and responsibility vested in you, and the greater the need for the suppression of all that is false in the presentation of these policies. This is a matter of vital importance to the companies, to you, and to the whole system of life insurance. Again I wish to remind you that this is a practical expression, and on this basis I emphatically reassert that for any lasting success in your profession these qualities of intelligence and honesty are essential. Soberly and thoughtfully I affirm that no field of work calls for the exercise of greater singleness of purpose, of loftier aims, of higher business morality than the profession which your association represents.

Your president has courteously offered me as

much time as is needed to treat this subject quite exhaustively, but I have no intention of wearying you by attempting to touch upon all points. This might divert your attention from the main issues, and, in view of your long and varied experience, it would be fruitless for me to offer suggestions as to the specific methods which should be applied in the prosecution of your work. You know better than I how to approach your clients. I have attempted simply to outline, in a general way, the essential principles underlying life underwriting, and I certainly believe that enormous assistance in accomplishing the needed reforms can be rendered by your local and national associations. The successful adoption of these principles depends upon the personnel of the agency force, and herein lies your power. Membership in these organizations should give the hall-mark of sterling merit. It is not an honor to be lightly bestowed or easily retained. On your rolls should appear only the names of those who, by earnest endeavor and honest work, are putting forth their best efforts to purify and elevate your calling. In your ranks there should be no place for the brilliant but unprincipled writer of insurance, for the man of doubtful honesty or easy virtue, whose sole claim for consideration rests in the number of unfortunates who have surrendered to his wiles. The Committee on Discipline and the blackball should await every "twister," every re-

bater, and every distorter of truth. Organization is of no avail unless every unit is sound. If you allow, in your Association, any element which has not the true ring of honesty and uprightness, all your influence will gradually be dissipated or will become an active power for evil.

I offer no apology for the high estimate I place upon the profession of the life underwriter and the enormous responsibilities which I believe are vested in it. The goods you offer are a boon to mankind; they appeal to the best there is in man; they are themselves the best. None but the best of men should handle them. The insuring public must have confidence in you; your companies must rely upon you; you are trustees in a well-nigh holy calling. The highest executive of your company may have greater power than you, but the trust imposed upon him in guarding the interests committed to his charge is no more sacred than the responsibility placed in your hands, when you become the expounder to the world at large of the truths of life insurance.

If you desire to increase your efficiency, keep your attention fixed on that which is required of the individual — intelligence and honesty; courage and belief in the survival of that which is good; strength to maintain your own position in honor and uprightness; earnest and untiring effort toward the uplifting and ennobling of your profession.

DIVIDENDS IN LIFE INSURANCE¹

OF late much has appeared in public print against the system of "deferred dividends," now so much in vogue. I believe that this criticism has arisen largely from a misapprehension of the system, and that under a rigid analysis it will be found that the method of application is at fault rather than the plan itself.

The conditions prevailing in this country are different from those which present themselves in older communities, and the demand of the American public for life insurance has been upon somewhat different lines than in Great Britain and other localities where business is less speculative. The insuring business man here, knowing his needs, has demanded not only indemnity in case of death, but a contract that would provide, as well, endowment or some other form of payment in the future, and, in addition, a contract of insurance which would in the mean time be valuable as collateral for use in times of temporary stress. All this has led to an amplification of the policy of insurance until it has come to include paid-up values, extended insurance values, loan values, and surrender values at the

¹ Circular sent to all policy-holders of the Home Life Insurance Company, in October, 1905.

end of given periods, all guaranteed. These liberal features have met the requirements of the public so well that American life insurance has grown at a phenomenal pace. Throughout all this period of growth the premium rates have remained about the same — except as the interest basis of calculation has been lowered — from the time when the policy was a simple contract to pay in the event of death with absolute forfeiture in the event of lapse. Such extreme liberality is only possible if the business obtained be of good quality, well selected, and of a character to renew and remain in force in a reasonable proportion, for it must be remembered that liberality to the policy-holder is not shown alone by the size of the dividends paid, — a position too often assumed by critics of the system, — but by the general treatment accorded to the policy-holder in all his relations to his company; and here I desire to state, parenthetically, that some companies which have made the greatest record in point of dividends paid have been able to accomplish this by reason of their lack of liberality in other channels.

Business which renews is essential to success, and insurance managers have devoted much thought to the formation of plans to accomplish the conservation of their business. If liberal surrenders are given in case of withdrawal, there must be some offsetting sacrifice by the policy-holder who retires,

for it must be borne in mind that the selection in matter of withdrawals is always against the company, and some special inducement must be offered to the policy-holder to carry out in full his part of the contract.

Hence the deferred dividend plan — by whatever name it may be called. This is, in brief, a plan by which the insured elects, at the time he takes out his policy, — and this must be remembered, — to allow his dividends to remain with the company until the end of a given period, and to forfeit them in the event of withdrawal or death during that period. He voluntarily chooses this plan; it is not compulsory for him to take it; there is no injustice in it; and he receives additional value in consequence of making the choice. From the standpoint of the company the plan is advantageous, as the forfeiture of dividends acts as a check upon withdrawals and promotes the continuity of its business.

Up to this point my remarks have been general, and, although the argument is most brief, yet I believe it establishes that deferred dividends *per se* are not in any sense open to censure. In the development of the system and in the method of distribution, however, I believe much may be fairly said against the plan as ordinarily practiced. If the applicant agrees when he takes out his insurance to postpone until the end of the period (say ten, fif-

teen, or twenty years) any apportioning of his share of the profits, he submits himself to conditions which may prevail at that future date and to methods of distribution which are not pledged in advance, and he has no guaranty as to what treatment he will receive. New conditions may arise, new methods may prevail, which no man can predict. Further, no matter when paid or allotted upon any policy, the dividends are the result of each year's business; and, if no accounting is made, a constantly growing fund is in the hands of the company, which need not under the terms of the policy contract be divided until the dividend period has expired.

This fund is called "surplus," and is properly surplus under this plan, for no policy-holder has any legal claim to participation in or knowledge regarding it until he reaches the end of *his particular dividend period*. This plan is open to serious criticism: it leaves too large an unassigned fund in the hands of managers and offers tremendous temptation to extravagant and lax business method — in fact, it is my personal belief that many, I am almost tempted to say most, of the abuses in our business have arisen from these large surplus funds which are the natural and necessary consequence of deferred dividends without any accounting during the dividend period.

From the time when the "Home" first began to

issue these deferred dividend policies, its managers recognized this peril, and felt that, if the final actual payment were to be deferred for a given period, the insured was at least entitled to have his share in the dividends determined year by year, and that the final apportionment should not be deferred until the end of the period; and that, if this were done, a liability would be created similar to the reserves on policies, which would safeguard this fund from improper use.

The plan of this company is, therefore, to allot the dividend on deferred dividend policies each year; to compute what that sum will amount to at the end of the period (payable if the insured is living and the policy in force at the time); and to annually enter in the company's statement a proper liability against each deferred dividend so declared. This total liability on December 31, 1904, amounted to \$1,290,036.

Further, it was felt that the policy-holder was entitled, if he desired, to a knowledge of the growth of these profits, and consequently this information is always furnished on request. Under this arrangement the insured is year by year made intelligent as to his contract; he is not kept in the dark until the end of ten, fifteen, or twenty years; he is not a member of a "blind pool"; and — what is more important — the company is bound to guard the liability against these deferred dividends as reli-

giously as it does the reserves on its policies. In a company so conducted, surplus is really surplus, and publicity is an accomplished fact.

Another indirect advantage should be noted; that is, that, as the policy-holder is posted year by year regarding the growth of his deferred dividend accumulations, the necessity for the use of "estimates" in the sale of deferred dividend policies is eliminated. The ignorant, and in many cases unscrupulous, use of the estimate as an inducement to the public to insure, has been one of the particular evils of the deferred dividend system as generally conducted.

THE PRESENT LIFE INSURANCE INVESTIGATION AND ITS EFFECT¹

IT is not my custom at meetings of this character to confine myself to a prepared formal address, as I believe that the occasion often suggests new thoughts which may be followed with profit, and certainly with greater pleasure to the patient auditor than a dry, unsympathetic paper.

It was intimated to me that this is to be a more or less serious affair, and that I am here for the purpose of putting new courage into the hearts of the gentlemen of this organization. If that be the case, I know that it can best be accomplished by a clear statement of facts, briefly presented, and if I were talking without notes, my enthusiasm might run away with my judgment and consume too much of your time.

I come, then, as a war correspondent from the actual seat of trouble to tell you how matters stand at the storm center. Of course, our thoughts are all centered upon the "investigation" now being conducted at New York. Let us look at the purpose of this investigation. The committee was appointed (I am quoting from the notice from its chairman,

¹ Address delivered at a banquet of the Rochester New York Life Underwriters' Association, November 27, 1905.

dated August 16) for the purpose of "investigating and examining into the business and affairs of life insurance companies doing business in the State of New York; with reference to the investments of said companies; the relation of the officers thereof to such investments; the relation of such companies to subsidiary corporations; the government and control of said companies; the contractual relations of said companies to their policy-holders; the cost of life insurance; the expenses of said companies, and any other phase of the life insurance business deemed by the committee to be proper, for the purpose of drafting and reporting to the next session of the Legislature such a revision of the laws regulating and relating to life insurance in this State as said committee may deem proper." It was not a committee whose object was to examine into the affairs of the various companies with the end in view of criticizing any particular company or class of companies, but the purpose was that the committee should post itself upon prevailing practices and recommend intelligently changes in the existing statutes.

It is of the greatest importance to bear this distinction carefully in mind. Another precaution must be given to those who wish to form a fair estimate of the work of the committee, — that is, that the actual testimony must alone be considered, and not the deductions drawn by critics and writers, in

the press and out of the press, who, from partial knowledge or from improper motives, have distorted the testimony and forced false conclusions upon the public.

I recognize the fact that in this gathering all companies are represented and that my position is a most delicate one, for you have asked me to speak of prevailing conditions in our business, and I presume you desire me to do so without fear or favor. I do, however, wish it to be understood that I am not here in an official capacity, and that in the opinions which I express I am simply giving utterance to my own personal views, for which I alone am to be held responsible.

First of all, and in order that there may be no misunderstanding from the start, I wish to state without reservation that there has not yet been produced one scintilla of evidence to shake our faith in the integral soundness of life insurance under the "old line" plan. The system is founded on a rock, and no storm which we can see can ever successfully assail its fundamental principles. The scientific plan of the system is theoretically correct and efficient in practice. Put this down as the underlying fact upon which you can pin your faith, and force your critic to confine his attack to the matters which are really under fire. If I can firmly fix this in your minds, we shall have a proper point from which to start, and you will have a sense of se-

curity in your position which is both justifiable and necessary if you are to do proper work.

The following conclusions are forced upon us by the investigation. Some of these are fundamental and self-evident, but at the present time it can do no harm to rehearse them.

The idea that our business is a sacred trust must be more clearly appreciated, not only by the officers and directors at the home office, but by every man in the field as well. This is not the time to point at the other man and examine his action. The question of the hour is, "Am I faithful to the trust placed in my hands?" Mr. Roosevelt recently said: "There are men who do not divide actions merely into those that are honest and those that are not, but create a third subdivision — that of law-honesty; of that kind of honesty which consists of keeping clear of the penitentiary." It is time for us to get down to old-fashioned principles and to appreciate the value of transparent honesty. Every dollar which passes through your hands or mine has upon it the sacred words "in trust," and we are accountable for its wise use to further the beneficent object of our profession. Every risk you solicit and every risk I accept must be scrutinized and passed upon with the clear conception of the responsibility placed in our hands. Every underhanded misrepresentation, every rebate given, every suppression of material fact is an insult to our calling and a breach

of our trust. We are trustees all the time and in every branch of our work. If so, the beneficiaries under our trust are entitled to full knowledge of what is being done. It is not practicable or necessary to furnish statements oftener than once a year, but when they are issued they should state the real facts. The policy-holder is entitled to know what is being done with his funds. Our business may be complex and difficult of explanation to the layman in many of its branches, but the facts can always be stated, and it is the solemn duty of life insurance officials to render their published statements honestly and fearlessly.

The importance of the fiduciary character of our business cannot be exaggerated, and this fundamental principle must be borne in mind in every branch of our work. Great stress has been placed upon the matter of dividends, and in many minds the size of the dividend is the standard by which the companies are to be measured. This seems at first glance plausible, but is most misleading. The mere cost of the insurance to the public should not be considered by itself alone, unless in forming our estimate of relative merit we also take into account the liberality offered to the insured in all his relations to the company. The American public has demanded from us — and, I believe, properly — insurance which would not only insure the life, but which would also be a ready asset when the neces-

sity of mere life insurance had disappeared; further, it insisted upon having a contract available as collateral in time of financial stress, and a policy which would, if required, carry itself, at least in part, by premium loans. Therefore we have seen the gradual introduction of all sorts of liberal features which give the modern policy an adaptability to all future contingencies. In the investigation it seems to me that sufficient stress has not been laid upon this growth in liberality. Dividends have decreased, we all admit that, but the cause is not to be found alone in decreased earnings on capital. Do not forget that during the last twenty years the gross premiums have remained the same except for the increase under the new rate of interest used, and then compare the present contract of insurance with that of 1885. You will then see why "miscellaneous profits" have dwindled, and discover one great cause for diminished dividends. The policy-holder has received his value, but in a different form.

I hesitate to touch upon deferred dividends; they are the object of attack on every side. My personal convictions are strong on the subject, but at variance with those of many of the brightest minds in our business. I believe in deferred dividends as giving an extra incentive to the insured to perpetuate his insurance and as furnishing a means of saving for the future, but I do not believe in the

method adopted by most companies in this connection. I feel that every participating policy should each year share in the profits; that its particular share, whatever it may be, should be set aside annually upon each policy, to be paid, as the policies may provide, either every year or used as the basis for determining the amount to be paid at the end of the deferred dividend period if the policy be then in force. I believe that every deferred dividend policy-holder is entitled to know at any time how that fund is increasing and how his individual account stands; and, above all, I believe that there should be maintained against these deferred dividends, individually and collectively, an absolute or contract liability as sacred as the legal reserve upon our policy contracts. I know this is not a popular idea. But why deceive ourselves and the public by a large surplus account which is not surplus for the benefit of all policy-holders, but in part a fund which must be distributed year by year as these deferred dividend periods mature? Is it not natural that the public should inquire, "What is that surplus for?" Why not meet the issue year by year and annually admit the growing liability? Misuse of terms in business often deceives the wisest men, and economy is not apt to be the order of the day when an individual, a nation, or a corporation is carrying a large unassigned surplus account, — in fact, I am convinced that many extravagances in

our business have crept in imperceptibly through a misapprehension of what this so-called "surplus" really was and to whom it rightfully would belong in the future.

This brings me to the general question of expense. I know of no hard-and-fast rule which may be safely laid down upon this subject. The conditions and requirements of each company are different; they even vary in the same company in different localities. We can only affirm general principles. The president, the officers, the agents, all employees of life insurance companies are entitled to full and just compensation for their labors. Here again we must revert to the fiduciary character of our business. There is no place for waste; there is no room for extravagance; there must be value given for value received. I do not begrudge one dollar of expense which brings in its proportion of result for the good of the company (that is, the policy-holder), but we must rid ourselves of every man, be his station high or low, who is simply using the collective funds of millions of saving people for his own betterment without giving a full and honest equivalent to the glorious cause of life insurance. This applies not only to the officers and office staff, but with equal directness to every man in the field. In this connection I have not time to touch upon the matter of special expense.

Investments. This is too broad a subject to ad-

mit of a full discussion here. No drastic legislation can profitably be applied to this subject. If the best results are to be obtained for the policy-holders there must be great latitude allowed, but the finance committees and the directors must be impressed with the seriousness of the responsibility of selection placed upon them. They are trustees, and they should never be allowed to lose sight of that fact. I believe that the public at large has drawn many false conclusions from the recent testimony on this subject, but there is much that needs correction. Public opinion alone can check the evils, and close scrutiny of the investments is a constant necessity. The policy-holder is entitled every year to a full and complete list of all investments.

These are a few of the thoughts which have been brought into new prominence by the "investigation." The question which is of the greatest moment to us is, "What effect will all this agitation have upon the future of life insurance?" In answer to this question you will not receive from me any word of discouragement or apprehension. There may be some dead limbs upon the old tree, but if so, we must lop them off. The heart of the oak is as sound as ever, and its grand old roots are embedded deep in the soil of everlasting truth. When this present crisis is over, and when we see more clearly, as we must, the evils which have existed, we shall find the public more intelligent

and discriminating, the companies more careful, and the idea of the sacred trust of life insurance more prominent in the minds of all. Reforms must come from within, and the public looks to us, the active men of the profession, to eradicate all that is bad wherever it may be found. We can accomplish this task more successfully and more quickly than any body of lawmakers, and the public has a right to expect us to do it. Every one of you has his share of responsibility at the present time. Before you is your grandest opportunity, and these times of stress should only make your enthusiasm greater and your loyalty more unbounded.

Let me close by simply quoting the inspiring words of Mr. Roosevelt upon the industrial life of our nation. The questions which confront us are the same as those which the nation has to meet:—

The problems which we of America have to face today are very serious, but we will do well to remember that after all they are only part of the price which we have to pay for the triumphs which we have won, for the high position to which we have attained. If we were a backward and stationary country we would not have to face these problems at all; but I think that most of us are agreed that to be backward and stationary would be altogether too heavy a price to pay for the avoidance of the problems in question.

There are many excellent people who shake their heads over the difficulties that as a nation we now have to face; but their melancholy is not warranted save in a

very partial degree, for most of the things of which they complain are the inevitable accompaniments of the growth and greatness of which we are proud.

Now, I do not wish to be misunderstood. I do not for one moment mean to say that there are not many and serious evils with which we have to grapple, or that there are not unhealthy signs in the body, social and politic; but I do mean to say that while we must not show a foolish optimism, we must no less beware of a mere blind pessimism. There is every reason why we should be vigilant in searching out what is wrong and unflinchingly resolute in striving to remedy it. But at the same time we must not blind ourselves to what has been accomplished for good, and above all, we must not lose our heads and become either hysterical or rancorous in grappling with what is bad.

THE INSURANCE INVESTIGATION¹

[Examination by Mr. Hughes.]

Q. Have you been interested in any syndicate, the managers of which have sold securities to the company? A. Not at all.

Q. Have any other of the officers of the company? A. No.

Q. You don't have any accounts in the name of officers for disbursements that you are not desirous of having appear on your books? A. Not at all.

Q. You never have had? A. Never have had.

Q. You have prepared a statement of the amounts disbursed by your company for legal expenses from 1896 to 1905. Is this a complete statement [showing statement to witness]? A. That is a complete statement, yes, sir.

Q. Are there any amounts which have been disbursed for legal expenses or paid for attorneys that do not appear in that statement? A. None that I know of.

Q. Are there any amounts which have been disbursed to lawyers or for legal expenses that do not

¹ Extracts from testimony of George E. Ide, president of the Home Life Insurance Company of New York, December 8 and 11, 1905. Taken from stenographer's minutes, Report of Proceedings of the Joint Committee of the Legislature of the State of New York for the Investigation of Life Insurance.

appear under the head of legal expenses on your books of account? A. Not to my knowledge.

Q. Has the company itself been interested in any syndicate? A. Not in any way.

Q. Have you any contingent fund placed at your disposal for any special purpose? A. None whatever.

Q. Have you had at any time? A. No, sir.

Q. Nor has any officer of your company had? A. Not to my knowledge.

Q. Are there any funds, any corporate funds kept in the names of individuals? A. You mean in banks?

Q. Yes, or trust companies? A. No, not at all.

Q. Are there any accounts which relate to company matters which do not appear on the company's books but are handled by individual officers or others? A. None at all.

Q. The legal expenses do not appear to be totalized. If you can give the totals yourself I would be glad to have you do so.

1899.....	\$ 8,270
1900.....	8,834
1901.....	3,910
1902.....	12,490
1903.....	8,579
1904.....	4,743

THE WITNESS: I think I have them here, and that these will agree with those figures.

Q. Does that include the compensation for general counsel? A. That includes compensation for general counsel.

Q. And that includes taking care of all lawsuits of your company? A. Yes.

Q. Have you expended any moneys in connection with matters of legislation? A. None at all.

Q. In the States? A. No.

Q. In how many States do you manage business? A. I should think we were in thirty States.

Q. Are you not constantly exposed to the terrors of strike legislation? A. There is a good deal said about it.

Q. Well, have n't you felt that the interest of your policy-holders required the expenditure of money to defeat obnoxious measures? A. I have never been called upon to do it; I have never done it.

Q. Have you ever paid any moneys to Andrew Hamilton? A. No.

Q. You or your company? A. No.

Q. Or to A. C. Fields? A. No.

Q. Well, do you make any campaign contributions? A. We never have made any campaign contributions, as I mentioned in my schedule, except in 1896, we expended a thousand dollars in the distribution and purchase of literature on the gold question.

Q. How did you expend that money? A. That was done by paying the National Protective Tariff

Association, who had the literature and sold it and distributed it.

Q. You have never made any contributions to any committee representing any party? A. No, sir.

Q. For political purposes? A. None at all.

Q. Or to any one connected with any political organization? A. No.

Q. For either local, state, or national or in any jurisdiction? A. No, none of those departments.

Q. What class of insurance does your company write? A. We write all forms of old line insurance.

Q. Do you write deferred dividend policies? A. Yes, we write deferred dividend policies.

Q. What portion of your business is deferred dividend business? A. I should think seventy-five per cent of our outstanding business is deferred dividend business.

Q. Is that a correct statement? A. Yes.

MR. HUGHES: I will read that on the record.

MR. HUGHES: Proportion of policies on annual dividend plan, eleven per cent; proportion on deferred dividend plan, seventy-five per cent; proportion on the non-participating plan, fourteen per cent.

Q. In making your investments did you deal with any particular commission house? A. We used the market in general.

Q. Do you enter into any joint account transaction where you give to any broker or banker a share of the profits? A. None at all.

Q. Does any officer of your company receive any commission upon the purchase or sale of securities? A. No.

Q. What amount of cash do you carry as a rule as bank balances? A. We have a general rule in the finance committee that when the total of the cash balances, including our balances all over the country, amount to \$250,000 or \$300,000 we begin to look for investments. At times the balances are necessarily below that figure, and sometimes they are slightly above it; but we try never to carry more than \$250,000 to \$300,000 in banks.

Q. That includes your balances in accounts distributed throughout the country? A. All through the country.

Q. What are your accounts in the city of New York? A. They would run not over — well, they would run from \$100,000 to \$200,000. In other words, the out-of-town balances would average, I should think, from \$175,000 to \$200,000.

* * * * *

Q. What is the machinery you adopt in reference to investments; does the matter come before the finance committee? A. The finance committee of the company meets once a week and all suggestions for investments are made to that committee. The

stocks or bonds or mortgages are then taken on the recommendation of that committee, and their action is reported in detail to the board once a quarter for confirmation.

Q. What proportion of your investments are in bonds and mortgages? A. Taking the statement of last December, the investment in bond and mortgage was \$4,735,000 out of total admitted assets of \$16,600,000.

Q. Has any officer of your company received any commission upon loans secured by mortgage? A. No.

Q. How are applications for loans upon bond and mortgage handled by your company? A. Applications come to the finance committee and are passed upon by them at their weekly meeting.

Q. Are the executive officers of your company privileged to pay out money in advance of action by the finance committee upon executive order? A. No, only in the ordinary transaction of business.

Q. You mean in the ordinary routine of business in the payment of claims? A. Yes, but not in anything of an investment character.

Q. Nor in connection with any payment outside of the regular routine? A. No.

Q. That practice does not obtain with your company at all? A. No.

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BY A MEMBER OF THE COMMITTEE:

Q. Can you tell what the average rate of interest on bond and mortgage investments is? A. It would average four and a half per cent; I should think four and a quarter to four and a half. We make very few at four.

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Q. Could you loan more of your money on bond and mortgage if you wanted to in this State? A. I think so.

Q. So that the division between what you do loan and the other investment is mainly on your judgment of what you think best? A. It is a matter of judgment, yes. I don't believe in short investments for life insurance companies, if they can be avoided.

BY MR. HUGHES: What is that? A. Our calculations being made in premiums at a stated rate of interest, which cannot be changed at our will, I think it is very wise for the insurance companies to keep its funds as largely as possible invested in securities which furnish a permanent investment, or a very long investment at a fixed rate of interest. For instance, a good railroad bond commanding four and a half per cent net, or four and a quarter per cent net to the company, would, in my mind—and running ninety-nine years—be very much more advantageous than a mortgage running out

in three years, which would have to be replaced, possibly at a lower rate of interest.

Q. And better than a demand loan? A. Very much better.

Q. That is what you had in mind when you said you had more profitable fields for investment? A. Yes.

Q. Than you would have in collateral loans of the Wall Street type? A. Yes.

BY A MEMBER OF THE COMMITTEE:

Q. I notice that the surplus of your company twenty years ago, that is, at the end of 1885, as appears from the Blue Book, was \$1,342,952, and that your surplus at the end of 1904, exclusive of \$228,211, fluctuation reserve of securities carried in liabilities, amounted to \$1,134,104. I note that in the intervening period your surplus has run between something over \$1,100,000 to about \$1,500,-000, indicating that it has been fairly constant for twenty years. Can you explain that? A. Well, I have felt that the surplus was ample for the purposes of the business, and that the policy-holders were entitled to the profits as they accrued, as far as was in my power to give them those profits.

Q. So that the explanation is that you have distributed additional gains to policy-holders, or credited your policy-holders with them, and carried them as liabilities if not distributed? A. Yes.

Q. Your surplus that you have thought sufficient appears to be somewhat less than ten per cent of your assets? A. Yes.

Q. The Blue Book gives your assets at the end of 1885 at \$5,646,478, and at the end of 1904, \$16,606,-229. The ratio of surplus or undistributed profits is much less at present than it was in prior years? A. Yes.

Q. Do you think that in reserving under ten per cent for contingencies you have an ample reserve? A. I think we have, in view of our system in other particulars.

Q. Well, what is your system in other particulars which enables you to get along with so small a percentage held for contingencies? A. I refer to the treatment of deferred dividends.

Q. That we will come to in a moment. A. But that is what I had in mind.

Q. In effect, if you set apart to the policy-holders what they are entitled to out of the accumulations, you think that you can, with ordinary prudence, safeguard the company by a certain contingency reserve of ten per cent of the assets? A. Yes.

Q. In your judgment, would that apply to a company of more assets than you have, that is, would that percentage obtain if the assets were very much larger than those of your company? A. Well, I should want to have a very intimate knowl-

edge of the character of the assets and the condition of the company.

Q. Well, assuming the assets were of the same class? A. I should think so.

Q. In other words, assuming conservatism in investments, and that the assets represented first-class securities, then you think that a reserve for contingencies of ten per cent is sufficient? A. I should think so.

Q. Now, you have referred to the manner in which you deal with deferred dividends. Now, we have already noticed that a very large proportion of your business is on the deferred dividend plan, so that your company is not an annual dividend company. A. In a sense, no.

Q. You do an annual dividend business? A. Yes.

Q. But only about eleven per cent of your policies are upon that plan? A. Yes.

Q. Now, your charter provides in article 7, section 1, that the board of directors shall cause a statement of the affairs of the company to be made annually, which shall exhibit the amount of the surplus or net profits of the company after reserving a sum sufficient to provide for all its liabilities. The net profits when ascertained shall be apportioned to the holders of policies, who may be entitled to participate in the profits according to their respective contributions. A. Yes, sir.

Q. Is that provision of the charter carried out in practice? A. Yes.

Q. So that annually you do have a distribution of the surplus or net profits. A. Yes.

Q. Now, do you, as a matter of fact, apportion the net profits to your participating policy-holders who have deferred dividend policies? A. Yes, sir.

Q. I will be glad to have you explain fully what the practice of your company is with reference to that. A. The dividends are apportioned annually on every participating policy. If a policy-holder has an annual dividend policy, he takes his dividends in cash or uses them to decrease his premium payments or buys with them additional insurance. On the other hand, if the policy is a deferred dividend policy, the distribution is made in exactly the same way on that policy and that amount is taken and accumulated until the end of his deferred dividend period, whatever that may be. The present value of the total of these accumulations is taken as a liability and is carried by the company as a liability in the same way that we carry reserves on a life policy, or on any policy of insurance, and the reserve last year, in the State Report, I think, is included with other items, but amounted to one million two hundred and ninety thousand dollars.

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[After introducing and filing a circular sent out to policy-holders by the witness, the examination continued.]

Q. How long is it that this practice has been in operation? A. It has been in operation since 1887 or 1888 in exactly this way.

Q. Well, is n't it apt to be embarrassing to you to carry as a legal obligation the present value of these accumulations? A. It has made it rather difficult at times; yes, sir.

Q. What has been a difficulty at times? A. It has rather curtailed us, I suppose, in the procuring of new business.

Q. How does it have that effect? A. Because the accounting is to be made actually year by year.

Q. It is an exposé of results to this time? A. An annual exposé.

Q. And that has its inconveniences as well as its merits? A. Very frequently.

Q. Has that been felt as an effective check in the operations of the company? A. I think it is a salutary check.

Q. In what way has it proved a salutary check? A. I think it leads to greater care in the selection of business and more conservatism.

Q. And also with regard to your investments? A. Yes, sir.

Q. You started in the circular by saying that the conditions prevailing in this country are different

from those which present themselves in older countries, and the demand of the American public for life insurance has been on somewhat different lines than in Great Britain and other localities where business is less speculative. Just what do you mean by that? A. I mean that in any new country the demand for capital in exploiting enterprises that are more or less speculative places a man in a position very frequently where for a few years he may hazard all that he has in these enterprises, and he finds it necessary to cover the risk of his life during that period of speculative business, and the American people have certainly adopted that plan of putting all of their energy and all of their money into their enterprises, protecting themselves, in the event of death, by liberal insurance.

Q. Well, what effect has that upon the popularity of certain types of insurance? A. The effect which I meant to hint at in that circular was that this differs from the ordinary plain insurance which a man in an older country would carry; and in order to meet conditions here, we have got to provide a form of insurance that will adapt itself to the requirements of the man in coming years. It may be that he wants to keep his insurance; his circumstances will be such that he wants to keep it through the future. It may be that he wants to surrender it. It may be that he wants to borrow money on it — all these conditions ought to be met by a good con-

tract, so that the American life insurance policy has become the most varied contract that has been issued.

Q. Has n't that variation in the policies offered by American companies been due largely to the necessities of competition? A. Not entirely.

Q. Has n't it been due to that fact to some extent? A. Yes, to some extent.

Q. To the desire to present something a little different and more advantageous than what another company may have presented? A. Well, I think that is a small factor.

Q. Well, is there any real necessity, in your judgment, for the great number of varieties of policies that we find issued by the companies? A. None at all.

Q. Not at all? A. No.

Q. The necessities of the American business man who desires to protect himself by life insurance during his most productive years do not require such an excess of ingenuity in the development of insurance schemes, does it? A. No, sir; I simply —

Q. How do you account for the varied forms we have? A. Well, that is for the sake of sale, undoubtedly. That is what I meant a moment ago.

Q. It is the result of competition? A. I think we were referring to different matters.

Q. Yes? A. I was referring to the introduction of the surrender value, the loan feature, and the

fundamental features of that sort, not to the varied contracts.

Q. One of my objects was to eliminate special forms which were introduced to makes sales of policies — A. Yes, sir.

Q. And to get down to these variations in American contracts which were incident to the experience that you have alluded to? A. Yes, sir.

Q. Now, these features you have in mind are surrender values, loan values, and also generally the features that pertain to investment insurance? A. Yes.

Q. What has been the American experience with regard to premium rates? Have they increased or diminished? A. There has been an increase, due to the change of the interest rate in making calculations, but otherwise there has been no material change.

Q. Now, what have been the motives which have led the companies to favor the deferred dividend plan of insurance? A. Well, I can only speak for my own company; the great reason why I preferred the deferred dividend policy for our company is that there is a strong element in that policy for its continuity. What we all are after is to so curtail, as far as possible, the tremendous lapses which there are in American business; and the fact that we have this growing fund, and that we can tell a man how his individual fund is increasing, gives to us not only

an argument to keep him in, but it makes it possible for us to use greater features of liberality in these deferred dividend policies.

Q. You mean that the danger of loss to the policy-holder of his accumulation in case of withdrawal before the expiration of the term, comes as an incentive to his continuance? A. Very frequently.

Q. Do you find that the rate of lapse is less in the deferred dividend policy than in the annual dividend policy? A. We have so little data — I would like to have more — for finding that out. I can only speak from my general opinion, because, you see, we have a very small volume of annual dividend policies, not enough to form a class and a great deal of that is old business which has been on our books for a great many years.

Q. Outside of the ordinary method of handling deferred dividends, in their accountings, there are other advantages to the company? A. I think there are.

Q. Advantages of the uncontrolled handling of large accumulations without a legal obligation to account for any particular amount. That has been recognized by you, has it not? A. That is my personal feeling.

Q. Now, I desire to read what you say in your pamphlet, upon the subject of the deferred dividend system, as follows:—

After stating the advantage to the company be-

cause the forfeiture of dividends acts as a check upon withdrawals and promotes continuity as well, you say:—

Up to this point my remarks have been general, and, although the argument is most brief, yet I believe it established that deferred dividends *per se* are not in any sense open to censure. In the development of the system and in the method of distribution, however, I believe much may be fairly said against the plan as ordinarily practiced. If the applicant agrees when he takes out his insurance to postpone until the end of the period (say ten, fifteen, or twenty years) any apportioning of his share of profits, he submits himself to conditions which may prevail at the future date and the methods of distribution, which are not pledged in advance, and he has no guaranty as to what treatment he will receive. New conditions may arise, new methods may prevail, which no man can predict. Further, no matter when paid or allotted upon any policy, the dividends are the results of each year's business; and, if no accounting is made, a constantly growing fund is in the hands of the company, which need not, under the terms of the policy contract, be divided until the dividend period has expired.

This fund is called "Surplus," and is properly surplus under this plan, for no policy-holder has any legal claim to participation in or knowledge regarding it, until he reaches the end of his particular dividend period. This plan is open to serious criticism; it leaves too large an unassigned fund in the hands of the managers, and offers tremendous temptation to extravagant and lax business method. In fact, it is my personal belief that many, I am almost tempted to say most, of the abuses

in our business have arisen from these large surplus funds, which are the natural and necessary consequences of deferred dividends without any accounting during the dividend period.

Q. Now, in your judgment, you have met that difficulty by the provision for annual accounting?

A. Yes, sir.

Q. But that still leaves open the handling of funds and the carrying of them, invested, during the period which must elapse before the time of distribution? A. Yes, sir, but under the other plan, having a surplus, you might, under a contingency arising, when you wanted to increase your business, use it temporarily with almost the certainty that it would come back to you after three or four years from the creation of new business, and you could figure on its coming back again to you before the end of that man's particular period.

Q. Yes? A. Whereas, under our plan, it would immediately show that I was cutting into my surplus, and it would be evident to every one what I was doing.

Q. In other words, when you handle a large accumulation without any accounting, or without existence of any legal obligation for the accounting annually, you could draw whatever you want to extend your business, and that means that you could draw upon that fund? A. Yes, sir.

Q. You could, of course, take whatever moneys

you had, but what would be the consequences at the end of the year? A. I might have no surplus at all.

Q. The safety of your dividend liability fund is dependent upon the care and conservatism of the management of your company? A. The same as the policy reserve.

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THE INSURANCE INVESTIGATION AND THE HOME LIFE INSURANCE COMPANY OF NEW YORK¹

[Brooklyn Daily Eagle, December 11, 1905]

THE Home Life Insurance Company received the attention of the insurance investigators at this morning's session and George E. Ide, its president, was on the witness stand. When he left the chair, just before recess, it was generally conceded that Mr. Ide had made a very good witness for his company. His testimony produced an excellent impression.

Mr. Ide answered the questions of Mr. Hughes very frankly. He testified that the Home Life dealt with no particular commission houses in making investments, but used the market in general. No joint account with any bank was maintained, he declared. In answer to Mr. Hughes's inquiry as to whether the company was pensioning anybody, Mr. Ide said that one clerk who broke down in the service of the company received a pension of \$1000 a year.

The company carried from \$250,000 to \$300,000 in cash and anything above that amount is invested. The company's method of investment is this: Suggestions are made to the finance committee,

¹ Extracts and comments from leading newspapers.

which meets once a week, and this committee reports quarterly to the board of directors for confirmation of its acts. Mr. Ide said his company is not interested in any syndicate operations, nor any of its officers. . . .

Mr. Ide explained that the apportionment of deferred dividends was made annually, but if the policy-holder wanted to find out the amount of his dividend he must make application. The deferred dividend system was preferred by the companies, the witness said, because it was a strong element in the policy's continuity and tended to do away with the tremendous lapses that occurred in American business. He regarded the annual apportionment of dividends as a valuable check on the companies. All the abuses of life insurance, he said, were due to the accumulations of large surpluses, where no annual accountings were required.

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[The New York Globe and Commercial Advertiser, December 11,
1905]

CLEAN RECORD IN INSURANCE

The insurance investigating committee and Inquisitor Hughes to-day enjoyed the novel experience of bringing to light a company which conducts its business in a business way, maintains its surplus unbrokenly at what it regards as a safe figure merely, goes into the market for investment in

stocks and mortgages only when its cash balance exceeds \$300,000, participates in no financial syndicates, does very little collateral loan business, distributes every year to annual dividend policy-holders the sums due to them; keeps an accurate annual credit account of deferred dividends for every policy-holder in this class, open at all times to inspection, and is a stranger to the recently exposed system of nepotism in insurance.

The company is the Home Life, and the witness was its president, George E. Ide, who testified also that so far as he knew no other company followed this plan of annual apportionment to policy-holders. Whether the reason for this was that such conservative management at times held down to an embarrassing point the amount available for expenses in getting new business in competition with other companies Mr. Ide declined to express an opinion.

The witness created a most favorable impression, and both the committee and Mr. Hughes seemed to enjoy the novelty of listening to one who evidently had nothing to conceal, understood his business, and talked about it intelligently.

[New York Herald. December 12, 1905]

HOME LIFE'S "CLEAN BILL"

Mr. Hughes practically finished his inquisition into the affairs of the Home Life Insurance Com-

pany, of this city, without having found anything scandalous in connection with its affairs. So much could hardly have been said of any other company that has yet come under his scrutiny. His inquisition was no less searching than heretofore, but the officers of this company apparently survived it unscathed.

George E. Ide, president of the company, testified that his company deals with no particular brokerage house, has joint accounts with no banker or broker, has no investment exceeding \$10,000 in any trust company or bank, and that neither his company nor any of its officers has ever taken part in syndicate participations.

[New York Evening Sun, December 11, 1905]

TELLS OF HOME LIFE METHODS

When President George E. Ide of the Home Life Insurance Company finished his testimony before the Armstrong committee in the Aldermanic Chamber of City Hall this morning, Mr. Hughes sighed: "It's hopeless!" Not a single officer, according to Mr. Ide's testimony, had a relative among general agents or managers. Not one had any syndicate participations along with the company. There was no handy trust company to help the company out with its surplus, although the Home Life does own a little stock in two companies. In fact Mr. Hughes harvested a mighty small crop of admissions.

[New York Sun, December 12, 1905]

George E. Ide, president of the Home Life, and other officers of that institution were before the committee for several hours yesterday, and Mr. Hughes failed to bring out a single questionable transaction. The company has no yellow dog fund, it has n't made any political contributions, it has n't spent anything for legislation, its officers have not been involved in syndicates, the salaries of its officers are moderate, compared with most of the other companies.

It was shown, besides, that this company keeps an actual account with each of its policy-holders in the deferred dividend class, and that it is possible for a policy-holder to find out at any time just what is coming to him. Policy-holders in the annual dividend class are allotted their earnings at the end of each year. It owns very little bank and trust company stocks and its cash balances are kept as low as possible.

[New York Evening World, December 12, 1905]

The business methods of the Home Life Insurance Company, as explained by President Ide to the investigating committee, show a conservatism and a regard for the rights of the policy-holders in refreshing contrast to the practices of the larger institutions.

The old-fashioned theory that insurance funds are trust funds seems still to obtain in this company. It indulges in no syndicate participation. It has no non-ledger assets. It enters into no joint-account stock speculations. Regularly every year, after the profits have been ascertained and an addition made to the surplus, the balance is apportioned among the policy-holders with mathematical exactness. There is no "guessing" by actuaries. Individual accounts are kept with the deferred dividend policy-holders and their policies credited with their earnings.

This is only simple honesty and fair dealing. But how elementary the methods! What kindergarten processes by comparison with the highly elaborated system of the larger companies! And what opportunities for personal exploitation left unutilized by the officials.

[*Brooklyn Eagle, December, 12, 1905*]

A MODEL AND A MEASURING-ROD

It sounds like a fairy tale. The president of an insurance company has escaped unscathed. It appears that the affairs of the Home Life have been administered after such a fashion that the witness sat in a sort of easy-chair, with neither trepidation nor embarrassment. Naturally, he was regarded as a curiosity. As it seemed too good to be true, the chairman consulted with the examiner-in-chief,

protesting that it would be almost a reflection upon the committee to let the witness go without a sign of distress, but Mr. Hughes threw up the case as "hopeless." However, after so many hits he could afford a miss. Unquestionably, if he were searching for a model or a measuring-rod for other companies, he found it in George E. Ide's management of the Home Life.

SHOWING OF HOME LIFE IN SHARP CONTRAST TO THAT OF OTHER COMPANIES

[By W. C. Hudson, author of "Problems of Life Insurance"]

The Home Life Insurance Company was on the stand this morning before the Armstrong Investigating Committee in the person of George E. Ide, its president.

The officers of this company were dubbed the angels of life insurance in the committee room to-day, because it was made clear that, as an experienced observer said, its administration was "as clean as a hound's tooth."

The examination it was subjected to was quite as searching as the inquiry into any other company that had been on the stand, but no irregularities were turned up to view. Whatever there was found to criticize went not to the administration of this particular company but to the principles of life insurance as generally observed by all the companies. Neither the company nor its officers had

been engaged in "syndicate participations" nor "joint accounts." It carried no large balances in banks or trust companies. Its custom was when these balances reached the sum of \$250,000 or \$300,000 to invest the funds. And these investments were preferably made in long-term bonds. It did very little collateral loan business and principally for the reason that if a large business was sought in this line the bulk of it must necessarily be Wall Street business. Its interest earnings were about four and a quarter or four and one half per cent.

It did have a payment in the nature of a small pension to one man who was a clerk of forty years' service and who had become disabled in the service of the company. Apparently it was doing nothing but writing insurance and strictly attending to business in doing that. When it invested its funds it invested them in established securities and none at all in those of a promotive stage. And it only carried a surplus of ten per cent of its assets for contingencies.

The insurance in force of this company is largely in deferred dividend policies. But as administered by this company such policies are in their least offensive form. Each year the dividends are computed the same as annual dividend policies are and the results credited to the policy-holders, knowledge of which could be obtained at any time. And these

deferred dividends were accumulated and a reserve established to guarantee them.

This form of policy was defended by Mr. Ide as more advantageous to the policy-holder and to the company. That it was advantageous to the company was clear, since in the event of death before the expiration of the period of the contract the deferred dividends were forfeited. But that it was of so much benefit to the policy-holder was not quite so clear, unless he lived his term to the end. In that they were incentives to live and not to die it might be advantageous. The company, however, believes that the form makes for continuity of contract and against lapsing and surrender.

The showing of the company under examination was, to use the language of one of the counsel, uttered privately, of the highest character, careful, safe, and conservative.

[Yale Alumni Weekly, December 29, 1905]

THAT GOODLY AMERICAN COMPANY

Some people need the suggestion which Mr. Dooley gave to Mr. Hinessey to the effect that things were in such an awful state in this country that, if he happened on an honest man, to regard him as a spy and put him out. There are some, however, who have so far kept their equilibrium as to realize that if the chief inquisitor of the New York Insurance Investigation Committee

had set out on the task to prove the excellent way in which a great body of men in high fiduciary positions were meeting their trusts and carrying their obligations, he could have made a demonstration as impressive in its way as that which his last three months have left. So much has been said of the wrong things shown and the men gone wrong, that there is some satisfaction in observing that when Mr. Hughes, merely intent on covering the ground in his immediate vicinity, or hoping, perhaps, to prove some things by contrast, wandered into the records of one particular corporation, he found it doing its work honestly and well. By way of an example of the army of the faithful, the record of Mr. Ide, Yale, '81, goes into the book of disclosures. The discriminating historian will perhaps make more notes concerning it than concerning thousands of pages of other records which happen to environ it. He will be reminded of the existence, even in these days, of that goodly American company "who did their work and held their peace and had no fear" — even of Mr. Hughes.

**PROPOSED AMENDMENT OF THE
NEW YORK INSURANCE LAW¹**
**AN ACT TO AMEND THE INSURANCE LAW
GENERALLY**

SECTION 87. *Contingency reserve.*—Any life insurance corporation doing business in this State may accumulate and maintain a contingency reserve out of the surplus attributable to policies issued on or after the first day of January, nineteen hundred and seven, not exceeding the following respective percentages of the net values of said policies computed according to the legal minimum standard prescribed by section eighty-four of this chapter, to wit: When said net values are less than one hundred thousand dollars, twenty per centum thereof or the sum of ten thousand dollars, whichever is the greater; when said net values are greater than one hundred thousand dollars, the percentage thereof measuring the contingency reserve shall decrease one half of one per centum for each one hundred thousand dollars up to one million dollars; one half of one per centum for each additional two million, five hundred thousand dollars up to twenty million dollars; one half of one per centum for each additional five million dollars up to fifty million dollars; one half of one per centum for each additional twenty-five million dollars up to one hundred million dollars; one half of one per centum for each

¹ An address delivered before the Committee of the New York Senate and Assembly in reference to proposed legislation on the subject of life insurance, March 9, 1906.

additional fifty million dollars up to two hundred million dollars; one half of one per centum for each additional one hundred million dollars up to five hundred million dollars; and if said net values equal or exceed the last-mentioned amount, the contingency reserve shall not exceed two per centum thereof. *Provided*, that as the net values of said policies increase and the maximum percentage measuring the contingency reserve decreases such corporation may maintain the contingency reserve already accumulated hereunder, although for the time being it may exceed the maximum percentage herein prescribed, but may not add to the contingency reserve when the addition will bring it beyond the maximum percentage; and *provided further*, that no such corporation having existing surplus funds or contingent reserves or funds awaiting distribution as deferred dividends shall be entitled at any time to accumulate any additional contingency reserve under this section except to the extent that the aggregate of such reserves and funds is less than the contingency reserve to which it would be entitled according to the rates above mentioned if computed upon the net values of the total policies then outstanding.

Mr. Chairman, and Gentlemen: —

The three large companies of New York City have been heard from directly by their presidents. Six of the smaller companies of the city of New York, namely, the Manhattan, the Germania, the Washington, the Provident Savings, the United States, and my own company, the Home, determined that it would be only a waste of time for you

to hear individually from those presidents. They selected me to speak for them, and it is with great diffidence, I assure you, that I undertake that task.

The sentiment of the gentlemen who occupy the presidents' chairs in these companies is unanimous; we all know what we want. We realize very firmly, very fully, the wonderful scope of this change which is now proposed. The insurance law of the State of New York is the result of a growth of many, many years. Under the law, be it wise or unwise, there have been developed the greatest life insurance companies which the world has ever seen. Now, gentlemen, after a six months' investigation, after sixty days of consideration, a new bill is put before you which I beg to assure you is revolutionary in its character. I am not prepared to say that I am not thoroughly in accord with the underlying spirit of that measure, but I assure you, as a practical business man, that the result which you are having in mind in framing that bill will not be carried out if it becomes a law.

The object, I understand, of this proposed legislation is to upbuild the business, and I have been told that it was your intent to curtail the larger companies and to help the smaller companies. I assure you the bill will accomplish the first of these two objects — it will curtail the large companies; but in the cataclysm which follows, I shudder to think what will become of us, because I see nothing

in the bill which offers the slightest relief or assistance to the smaller companies.

All of this is introductory to the main general thought which I want to bring out — that is, that we are not antagonistic to the measure, as a measure, nor are we, the smaller companies, antagonistic to what we believe to be the intent of the gentlemen who drew this bill; but this is so vast a subject that we ask you to give to it the time which is necessary for its careful consideration. All we ask is that you hear the testimony of gentlemen who have studied this business, who have practiced this business for years, and who, I say it in absolute earnestness, are entitled to your consideration.

The actuaries of the companies have been called together and they met in my office some two weeks ago, twenty-six of them, from all over the country, to consider this measure. The questions they will want to take up in detail it appears to me — and I am following the very kind suggestion of the chairman in making a free expression of my thought — the questions which they will want to bring up are of such a nature that they cannot be discussed in a mass meeting. There is only one way to get at the true inwardness of these mathematical questions, and that is by a heart-to-heart discussion where questions can be asked and expressions of opinions given.

So much for the general attitude of the smaller companies on this particular question. I have been asked also to speak briefly in regard to section 87 of your bill.

[MR. WAINWRIGHT: Which bill is that?]

The section which you will find in the act to amend the insurance law generally, no. 996, section 87, page 33. The provisions of this particular section are, in brief, that a company may accumulate and maintain a contingent reserve out of the surplus ordinarily divisible to policy-holders on a certain basis of percentage of the mean reserve or net value of its policies, and that the surplus must not exceed that amount. In other words, it provides a maximum contingent fund which the companies may be allowed to keep as a margin of safety. This section is difficult to discuss in such a general assembly as this, if I take it exactly as it is written. It starts off with a manifest intention of dividing every company in business into two companies — one the company representing the old policy-holders who had the misfortune to be insured before the first day of January, 1907; the second class, the new policy-holders who come in under this new law. I will not go into this technical discussion. It is one of those questions which I think cannot be discussed profitably here; I will simply state that it is my opinion that a gross injustice is done by this provision to the old policy-

holders. Later on in this section we find that the closing clause seems in some way to bulk together all the accumulated funds of the past and put them in with the new funds unless an entirely new system of bookkeeping, not called for in the policy contract of many of the companies, is inaugurated. I will not attempt to speak of that feature of the bill, which I believe to be enough to condemn it.

I want to speak of the general underlying principle. The intent of this law is plain. The intent is to compel the managers to distribute to the policy-holder his proper share of the divisible surplus. This is one of those points where I say, gentlemen, the intent is magnificent; the way you have carried it out I believe to be wrong. This is, as far as I know, the first law which has ever been proposed whereby a limit is put upon conservatism. The French Government to-day has under consideration a law compelling the companies to charge a certain premium and no less for an ordinary life policy; and that is the usual trend of law on insurance matters. Everything previously has been in the line of safety. This bill says it is a misdemeanor to be conservative.

Now, gentlemen, who is responsible for the ultimate judgment as to how much or how little of our profits we shall keep as a safety fund for future times of stress? Are the gentlemen of this Legislature, who finally are to pass upon this bill, willing

to say to the directors of the life insurance companies of this country, "Gentlemen, we free you of responsibility; we will determine how much you will divide"? I think not.

Now there can be, in my opinion, no hard-and-fast rule for all life insurance companies. The size of the net reserve is no criterion. Take this one simple question, which is actuarial, by the way, and yet I believe I can make it plain to every one — take the proportion of old and new business which a company carries. Suppose we have a company where the great preponderance of insurance is old insurance, where the effect of the medical selection which we make in the acceptance of risks has disappeared, where we are getting close to if not beyond, in many instances, the ordinary mortality tables, — do you mean to say that that company needs the same surplus as a company which has the preponderance of its insurance consisting of selected risks placed on its books within the last ten years? I do not believe that any such limit is necessary, but if you are going to put a limit, put it so ridiculously high that no company in the ordinary conduct of its business would think of reaching such a figure.

Take another matter; take the fluctuation of securities. In that connection I may be met by the remark that mortgage loans on real estate, the ideal investment in the minds of some, do not fluc-

tuate. They do not fluctuate, gentlemen, on their face, but remember that in 1903,— I speak of the last panic,— remember that in 1903, those of us who held marketable securities, bonds and stocks, in our statement to the Insurance Department of the State of New York quoted these securities at what they would bring when nobody was buying anything, and the companies with mortgage loans quoted their mortgages at par. You could not have sold the collateral, you could not have disposed of the mortgages, and yet their statement was unimpaired by the panic of 1903.

Now take two companies with exactly the same net reserve, one with its assets cut down for the time being by the crash in Wall Street, the other with its assets invested in mortgages unimpaired. Do you mean to say that the security company, the one with the securities, needed the same surplus on December 31, 1903, as the other company, the company with mortgages which was really using, under your practice, fictitious values? I believe not.

Take this very case of 1903, because it impressed itself very strongly on our minds. If you gentlemen will pardon a personal allusion to my own company,— for I believe that a tangible example is the best way to bring my argument before you,— in 1901, or rather, I think, the end of 1900, we determined that the prices of securities

in our opinion were very high and we laid aside (I believe it was the first time this was ever done by any company) a special fund for possible future fluctuations in the price of securities. We came to 1902, the situation was unchanged, prices were still high; and we increased that fund. When the panic struck us in 1903 the surplus of our company was depleted to a certain extent, but there was nothing in it to alarm the policy-holders. Now, gentlemen, had we been up to the limit prescribed by this bill in 1901, it would have been a misdemeanor for us to have laid aside that contingent fund and prepared ourselves for the storm. Do you think that is wise?

I suppose that it will be said that this is a safe margin; that, gentlemen, is not so. It is arranged on a scale by which the percentage which the companies are allowed to keep varies according to mere rule of thumb, according to the size of the company, decreasing as the company grows larger, until, coming to the largest companies of our State, only two per cent is required. Now, I am informed by the officials of the New York Life, although you remember they were only carrying bonds and none of those much-hated stocks, that, had they had only two per cent when 1903 came, the New York Life might have been, and would have been temporarily, insolvent.

This is a serious question, it is a serious situation

which you intend to force upon us by this measure. There is another question affecting the policy-holder directly. You ask us to distribute to our policy-holder all of this money above the limit which you have prescribed. That means that in one year, of high security values, of general prosperity, of low mortality, the dividends would be very large; the next year it might be that we would have a heavy mortality; a shrinkage in securities, a bad year generally, then the dividends would decline. Now, in my experience in life insurance matters, I find that the only way to keep the public satisfied is not to alarm them by violent fluctuations. You must have a stable rate of dividends, growing if your company is growing in prosperity, but growing in gradual gradation. You do not want these violent fluctuations up and down where the policy-holder asks, "What does this mean? Is my company becoming insolvent?" — and writes to the home office. You can only maintain confidence in the minds of a mass of policy-holders by handling your business in a uniform and reasonable manner.

I do not wish to tire the committee by going into all the details of this particular section, but it seems to me one that is of vast importance. I will simply mention, in the hope that you will look into it more fully, the effect upon the relative dividends in large companies and small companies as the result of this provision.

[SENATOR ARMSTRONG: Mr. Ide, it is our policy, of course, not to enter into any controversial argument with any of the speakers because we do not want to use their time. The statement you suggest, that it is necessary, in order to transact a satisfactory life insurance business, that, irrespective of the gains or losses year by year of the company, dividends should be kept uniform, is a very interesting one. I hope that you won't pass over that and dismiss it because you think that you are pressed for time in any way.]

What I mean, and I am glad you brought the point out, what I mean is that if you find (if I can indicate it by a gesture) that the progress of your company as a money-making concern for the policy-holders is indicated by a line [indicating] gradually rising, it is in my opinion very unwise to show in the annual dividends to the policy-holder each one of these annual fluctuations. You must be allowed in your judgment to take the mean line, give him the benefit of the gradual improvement, but not show him the fluctuation of each individual year. I think you could —

[SENATOR ARMSTRONG: I don't get the idea yet why the fact is dangerous.]

Because the policy-holder becomes unsettled when he finds his dividends fall in a given year. If we are allowed, in our judgment, to carry enough reserve over from a previous year to carry out my

idea of a gradual improvement, without giving him notice of the fact there has been a slump in a particular year, he is undisturbed on the same principle.

[SENATOR ARMSTRONG: But that is a case of ignorance being bliss.]

Well, the majority of all the policy-holders on the insurance question, I believe, are ignorant of the causes which must necessarily lead up to an annual fluctuation of that sort, particularly in smaller companies.

[SENATOR TULLY: Why is not he entitled to know?]

He is, if you think it is necessary to alarm him, but I don't think it is; I don't think it does any good.

[SENATOR ARMSTRONG: Suppose that a fluctuation occurs through something else than a natural trend of events and is something the policy-holder should know, how are they going to compel the revelation of that fact?]

That would show in the diminution of the surplus, under my plan; he would get not a smaller dividend than last year, but a dividend very much more stable, and the effect upon the surplus would be to make that perhaps fluctuate with some violence.

[SENATOR RAINES: If you will excuse me, the policy-holder in the event of the gradual increase

would be less inclined to forfeit his insurance and lose by dropping his policy?]

Exactly; yes. In other words, if I may take another example, it is very much like the conduct of a railroad. I believe it is considered very unwise for a railroad to distribute all of its surplus earnings in times of great prosperity because it must prepare for the times of adversity which are sure to come.

If I may, then, simply state the reasons why I believe that this section is unwise, the points could be briefly covered as follows: —

To determine the amount of surplus necessary for the good of a company, the person determining the surplus, or the board of directors determining that surplus, must have an accurate knowledge of its internal affairs. They must be thoroughly posted as to whether the preponderance of the insurance is old insurance or new insurance, whether in consequence of that there is a probability of a high or low mortality. I speak again of the necessity of a fairly stable rate of dividends, which in the small companies especially is impossible under your bill. The man determining how much surplus a company should have must also be intimately aware of the nature of its investments and the probability of the future fluctuations adversely or favorably.

I do not see, in view of these facts, how any law can be wise which has as its basis the size of

the net reserve, and I believe it is an extremely dangerous matter, as I said before, for you gentlemen to attempt to take away from the directors the serious responsibility which rests upon them of conducting a safe company, for, in my opinion, the size of the dividend, the size of the return, the size of the concession, the liberality of the contract, all other features sink into absolute insignificance in comparison with the one fundamental fact that life insurance must be safe. I really feel that, apart from the actuarial questions which I referred to at the start, the bill as written is in principle wrong, and that the more you look into the subject and study its practical operation, the more you will be convinced that the matter has not had as careful consideration as was necessary before this section was drafted.

[ASSEMBLYMAN ROGERS: Mr. Ide, you have made criticisms and I would like you to be a little more specific in your suggestions of the modifications in the proposed legislation.]

My suggestions will naturally be confined only to these points, because the others will be taken up by other gentlemen later. My suggestion on this section is that we do not need it.

[ASSEMBLYMAN ROGERS: Eliminate it entirely?]

If you feel that you must have it, which I deem very unwise, if you deem you must have it, there is no reason on earth that I can see why the New

York Life should not be allowed to carry as large a ratio of reserve as I carry in the Home Life, and your limit must be put so high that in times like 1903, or other times of stress, the directors may act without restraint.

[ASSEMBLYMAN COX : Can you suggest any figures?]

That was asked me on the stand and I come back to the original statement: I must know the internal character of each company, the nature of its mortality, the nature of its investment, before I can give any figures. I do not think you need the section; I think it will only do harm.

THE FUNDAMENTALS OF LIFE INSURANCE¹

THE great popular interest which is now being manifested in the subject of life insurance makes it imperative that the public should clearly understand some of the fundamental principles of this great science. The ignorance prevailing on this subject is possibly not strange, but false impressions have led to false conclusions, which have influenced not only public opinion, but have been the basis of some recent legislation.

The principles which are explained in this pamphlet are elementary; they are presented in a simple and untechnical manner, in the hope that they may form a basis for better understanding and clearer judgment.

Premiums and Reserves. Let us first consider the basic principle of a life insurance contract, and in order to do so we will consider a concrete example based upon hypothetical conditions.² Suppose a company is formed of one thousand men; that the age of each man is forty; that each is insured for

¹ Pamphlet issued in 1907.

² This illustration and explanation are based upon the examples given in the *A, B, C, of Life Insurance*, published by the Spectator Company, of New York, and are used by permission of the publishers.

eleven hundred dollars; that one hundred men will die during the first and each succeeding year; that every man remains in the company until his death occurs; that the company receives nothing for interest on money in its hands and pays nothing for expenses for conducting the business.

Suppose these men agree to pay a uniform amount of two hundred dollars each year as long as they live as a premium for the insurance. There would then be one thousand men paying premiums the first year, nine hundred the second, and so on.

The result would be as shown in the accompanying table.

$1000 \times \$200 = \$200,000$, Premiums received beginning	First year, age 40
$100 \times \$1100 = \underline{110,000}$, Losses paid during	
$\$90,000$, Amount in hand at end of	Second year, age 41
$900 \times \$200 = \underline{\$180,000}$, Premiums received beginning	
$\$270,000$, Total amount in hand beginning	Third year, age 42
$100 \times \$1100 = \underline{110,000}$, Losses paid during	
$\$160,000$, Amount in hand at end of	Fourth year, age 43
$800 \times \$200 = \underline{\$160,000}$, Premiums received beginning	
$\$320,000$, Total amount in hand beginning	Fifth year, age 44
$100 \times \$1100 = \underline{110,000}$, Losses paid during	
$\$210,000$, Amount in hand at end of	
$700 \times \$200 = \underline{\$140,000}$, Premiums received beginning	
$\$350,000$, Total amount in hand beginning	
$100 \times \$1100 = \underline{110,000}$, Losses paid during	
$\$240,000$, Amount in hand at end of	
$600 \times \$200 = \underline{\$120,000}$, Premiums received beginning	
$\$360,000$, Total amount in hand beginning	
$100 \times \$1100 = \underline{110,000}$, Losses paid during	
$\$250,000$, Amount in hand at end of	

$500 \times \$200 = \$100,000$, Premiums received beginning	Sixth year, age 45
$\$350,000$, Total amount in hand beginning	
$100 \times \$1100 = \$110,000$, Losses paid during	
$\$240,000$, Amount in hand at end of	Seventh year, age 46
$400 \times \$200 = \$80,000$, Premiums received beginning	
$\$320,000$, Total amount in hand beginning	
$100 \times \$1100 = \$110,000$, Losses paid during	Eighth year, age 47
$\$210,000$, Amount in hand at end of	
$300 \times \$200 = \$60,000$, Premiums received beginning	
$\$270,000$, Total amount in hand beginning	Ninth year, age 48
$100 \times \$1100 = \$110,000$, Losses paid during	
$\$90,000$, Amount in hand at end of	
$200 \times \$200 = \$40,000$, Premiums received beginning	Tenth year, age 49
$\$200,000$, Total amount in hand beginning	
$100 \times \$1100 = \$110,000$, Losses paid during	
00	

This example contains the fundamental principle of a life insurance contract, and the example is fully as instructive as though we had taken the regular mortality tables as a basis and thereby made the calculation more complicated. A few facts are at once self-evident from a study of this example.

The annual cost of insurance (that is the amount of loss in any one year divided by the number of men living at the beginning of that year) varies from year to year, although the premium remains the same.

For the first year the cost of insurance is \$110,-000, divided by 1000, or \$110 per man. The second year the cost of insurance is \$110,000, divided by

900, or \$122.33 per man. In the same way the cost the third year is \$137.50 per man, and the fourth year, \$157.14 per man, and so on.

When we reach the point where more than one half of the original number of men is dead the cost will exceed the premium — that is, in the sixth year the cost is \$110,000 divided by 500, or \$220 per man. It is therefore at once evident that a uniform or level premium involves an annual premium in the early years of the contract in excess of the actual cost of insurance, and necessarily these excess payments must be reserved by the company to make good the deficit which would otherwise occur during the latter part of the term, and the amount so laid aside is what is technically known in our business as the "reserve," and wherever the level or uniform premium plan is adopted such a "reserve" must be kept intact if the company hopes to meet its obligations during the latter years of the life of a policy contract.

When this plan of operation is practically carried out in the working of a life insurance company, the problem is more complicated than the example which we have given. These reserve funds growing from year to year must earn interest, and the calculation is based upon some fixed rate of interest determined upon in advance. A natural basis of calculation is some chosen mortality table based upon observation and experience.

The actual growth of "reserve" on a \$1000, ordinary life policy at age thirty-five, where the rate of interest which the reserve earns is supposed to be four per cent, is shown in the table appended:

\$1000 POLICY

<i>Year</i>	<i>Ordinary life</i>
1st	\$ 11.48
5th	58.71
10th	133.41
15th	214.30
20th	301.35
25th	392.53
30th	484.64
	etc.

If a company had one thousand policies of \$1000 each, or \$1,000,000 of insurance of this particular kind, it would be evident that it would have to have on hand as a reserve fund \$214,300 at the end of the fifteenth year, \$301,350 at the end of the twentieth year, and \$484,640 at the end of the thirtieth year; and if it did not have this sum on hand, it would not be in a position to meet its future obligations.

Under the level premium plan these reserves with few exceptions must increase each year on each policy, and that is why the States use these reserves as the measure of solvency of life insurance companies. Further, this fact must be remembered, even if a company does no new busi-

ness, its assets must increase (for some time at least) to meet the increasing reserve.

The figures of one company, whose insurance in force has remained about stationary during the past few years will illustrate this point:—

<i>Year</i>	<i>Amount insured</i>	<i>Policy reserve</i>
1903	\$69,800,000	\$15,800,000
1904	72,600,000	16,300,000
1905	76,000,000	17,100,000
1906	74,400,000	17,700,000
1907	69,000,000	18,100,000

From 1903 to 1907 the insurance in force decreased \$800,000, but the reserve increased \$2,300,-000, and if that company had had no surplus in 1903, and if the assets had not increased by at least \$2,300,000, some States would have declared the company insolvent. In another company during the same period the insurance in force decreased from \$44,000,000 to \$35,000,000 and the "reserve" increased \$144,000.

During the recent period of agitation in reference to insurance matters the charge has been made that life insurance companies were unnecessarily accumulating assets, and that this tendency is a public menace. No life insurance company can fail to accumulate assets if it hopes to meet its obligations in the future; and, furthermore, no insurance company can meet the statutory requirements of the States unless it does accumulate

assets in a sufficient proportion to meet the necessary growth in its own "reserve." These facts are fundamental, and were they thoroughly understood much of the present criticism of life insurance companies, as great accumulators of unnecessary funds, would promptly vanish.

Loadings and Dividends. Our attention thus far has been directed to the "premium" and "reserve," and we have been dealing with net figures. The net premium is simply sufficient to meet the requirements of the policy contract, and to this we must add an amount to provide for contingencies and expenses. This margin is known as "the loading."

In some companies this "loading" is small, and no part of it is ever returned to the policy-holders. These are called "non-participating" companies. In others the loading is larger, and a return of a portion of it, as well as other savings, is made to the policy-holder. These are "participating" companies. The money so returned is called a "dividend." This term is unfortunate and misleading. In our minds the word "dividend" is associated primarily with that increment of profit from industrial operations or corporate management which is distributed among shareholders or partners in an enterprise. Between that form of "dividend" and the "dividend" in life insurance there is little analogy, and yet most argument on the subject, and unfortunately most legislation, are based upon

the supposition that both are sufficiently similar to call for the application of the same rules in their determination and the same general style of legislation in their regulation.

If the "loading" is larger than the necessities of the case require, part of it is given back to the policy-holder. It is simply a return of what has proven to be an overpayment.

These are the sources from which dividends arise: first, the mortality may be more favorable than that expected under the table upon which the premium is based; second, the rate of interest earned on the company's assets may be greater than that upon which the calculation has been made; third, the expenses of the company may be less than the "loading" which was placed upon the net premium to provide for this item; and, fourth, the company may make profits from miscellaneous sources.

The death-rate is a factor which fluctuates widely from year to year; the other factors also are not constant; therefore ordinary prudence demands that the dividend return should always be made upon conservative lines; and an overdistribution of surplus, though for the time being attractive to policy-holders, may be a source of great future peril. The maintenance of an ample "surplus" to provide for all future contingencies is wise and necessary. The "limitation of surplus"

and compulsory methods of "dividend distribution," as now embodied in some recent legislation, are wrong in principle and dangerous in practice.

Policies. The principal forms of policies now issued are the following:—

"Ordinary life"—payable at death; premiums payable during life. This policy is also called a "whole-life policy."

"Limited payment life"—payable at death; premiums called for only during a limited period, such as "10-payment life," "20-payment life," etc.

"Joint life"—insuring two lives (or more), payable to the survivor.

"Term"—insurance covering a limited period of time.

"Endowment"—payable at the end of a given period, or at prior death.

"Annuities"—providing a fixed annual sum payable during the lifetime of the annuitant.

Investments. This is a most important part of the management of a life insurance company. The fact that every premium calculation is based upon some fixed rate of interest to be earned, which is determined when the policy is issued, and which cannot subsequently be changed, and the fact, as already shown, that the assets of a company are constantly increasing, make the investment of a company's funds a difficult task. As far as possible the management must by long investments protect

itself against a future decline in the interest return, and it must constantly be in the market for investments to keep up with the constant growth in its assets.

An intimate knowledge of the needs and limitations in each case leads one company to seek investment in local real estate loans; another chooses mortgage loans in all parts of the country; another invests in railroad securities, etc.; and all are simply seeking to obtain the highest interest return with the maximum of safety.

It is my firm belief that freedom of choice in the line of investment to be chosen should be given to the management if the best results are to be obtained. Compulsory investment in any particular class of security, or in any designated locality, destroys efficiency and divides responsibility. The check to improper practices lies in simple publicity properly enforced.

Taxation. Life insurance companies are under the control and direction of the various States in which they do business, and are subject to such taxes as they may impose. These taxes, license fees, etc., paid by 146 companies in 1907, amounted to \$6,741,046. These taxes are not levied for the maintenance of the insurance departments; they are for the purpose of revenue. The Insurance Department of New York State from 1860 to 1907 has received in taxes from companies of other

States, from licenses, etc., \$2,349,829, in excess of its disbursements, and this does not include the taxes paid by New York companies to the Comptroller of this State. The propriety of a tax on life insurance is not the subject before us, but it is important that policy-holders in participating companies should know who pays the tax. It is not the "company" — every cent of tax comes out of the "loadings" on the premiums, and leaves just so much less to be returned to the insured in the form of a dividend. The policy-holders pay the tax, and last year their contribution was \$6,741,046.

If the people of this land understood this more clearly our State Legislatures would soon find excessive taxation of life insurance companies unpopular as well as economically unwise.

New Business. Every company is losing each year by death, surrender, maturity, etc., a certain amount of its insurance, and such losses have to be replaced by new business if the company is to avoid a decrease in its insurance in force, and the aim of most insurance managers has been to increase the size of their companies.

The growing demand for life insurance on the part of the people of our land, the American spirit of expansion and development, the general astuteness and activity of insurance men, have led to a growth in American life insurance which has

attracted the attention and admiration of the entire business world.

During the past few years there has been much investigation into this growth and inquiry as to whether this new business has been secured on sound business lines. In a country such as ours, which is still in its period of development, life insurance is an economic necessity as a protection to the individual, who is often forced by the conditions surrounding him to engage in business operations of an uncertain and semi-speculative character. Further, it must be remembered that life insurance is an investment which, in this country at least, men do not buy unless it is forced upon their attention.

It does not sell itself, although many theorists take the contrary view. It must be advertised and explained, and finally presented to the public by industrious and intelligent salesmen. All this means expense.

What is a proper cost for new business? In other words, what proportion of the company's funds is it wise to expend in securing new insurance?

Students of the subject of life insurance have advanced various theories, and legislative bodies have passed restrictive laws on this important subject, all attempting to arrive at one fixed, immutable rule, which may be properly applied to all companies. In this attempt the fundamental fact

has been lost sight of, that new business may be of greater relative value to one company than to another, and because of the many elements which go to make up the complex organization of any company any universal rule must be unfair in its application. The restrictive law which works satisfactorily in the case of one company, or class of companies, is bound to operate to the disadvantage of others. To determine how much new insurance a company needs, or what it can afford to pay for it, one must have an intimate knowledge of the condition of that company, and the extent and method of growth should not be prescribed by detailed rules of general application.

When one speaks of the value of new business to a "company," it must be borne in mind that the company consists of the policy-holders, and what the management has to consider, in all matters, is the effect upon the interests of the policy-holders which must be conserved.

Conclusion. It is obviously impracticable to attempt to go into great detail in a popular treatment of this subject. I am simply presenting a few fundamental facts regarding our business which agents, policy-holders, and the public at large must understand if we are to have fair criticism of insurance methods and intelligent action in the matter of legislation. Prejudice and persecution can only be overcome by a campaign of education.

No interest is so vast and none so important to the people of our land as "life insurance"; it is the great economic bulwark of our nation, and more than any other institution promotes saving and thrift, characteristics which unfortunately are none too conspicuous in this country. It is entitled to the honor and respect of our people. It should not be a target for excessive taxation, nor should it be checked in its beneficent work by unwise and hostile legislation.

THE LIFE INSURANCE SITUATION¹

THE new insurance law of New York State has been in operation long enough to enable one to form some judgment of its effect upon the life insurance business. While it would probably be impracticable for this year's Legislature to consider any radical changes, yet it is to be hoped that the legislators will carefully study its working, in order that the law may be so amended later on as to accomplish the desired reforms upon sound lines, and with the least possible injury to the vested interests, which, owing their existence to the State, naturally look to it for protection.

In all legislation of so radical a character, the greatest difficulty arises from the lack of uniformity in the legislation of the various States, and the consequent injustice which is done to domestic companies by laws affecting them which cannot be made to cover the companies of other States. The New York companies have led in the intelligent development of the business, and the State can ill afford so to curtail their activities that they cannot compete successfully with rivals working under less drastic supervision — provided always that they are sufficiently restrained to prevent the recur-

¹ Written for *Putnam's Magazine*, June, 1907.

rence of past abuses. This brings us to the vital question, whether mismanagement and extravagance can be effectually checked by law, and whether we are not now going too far in our tendency toward regarding legislative action as a panacea for economic ills — a question upon which there is the greatest possible divergence of opinion.

The subject of life insurance is an intricate one, and a close study of the applied science leads to the conviction that theory alone is not enough — that in practice many matters must be taken into account which to the theorist seem immaterial but to the practical underwriter are of vital importance. Consequently, legislative reforms cannot safely be based upon book-knowledge alone, or the theories of so-called experts who have had no experience in applying their theories to successful practice. One error which has crept into almost all reform legislation on the subject of life insurance is the belief that what is good in theory for the science of life insurance in general must necessarily be good for each and every company; in other words, that if it can be proven that a certain principle is theoretically correct, it can be safely adopted as a universal law and made compulsory upon all companies.

The attempt closely to restrict the companies in the matter of surplus, making one law applicable to all, is a case in point. The advocates of this

measure lose sight of the fact that a prudent manager who desires to protect the interest of his policy-holders must be in a position freely to decide how large a surplus or contingent fund he should reserve for the requirements of his own company, basing this decision on his own knowledge of the stability of its business, its probable mortality, the character of its assets, and many other factors in the situation which he alone can know and estimate, and which are not like the conditions surrounding any other company, even of the same size as his own. This is one subject upon which directors and managers must be allowed absolutely free rein, if the responsibility of success or failure is to rest with them. Close legislation in matters of this character can only tend to divide responsibility.

Take, also, the matter of administrative expense, which some States are endeavoring to restrict by law. No one but the directors of a company can know the problems which confront that company, and the necessities which may arise for securing officers and managers of great constructive, executive ability, to meet the questions which are pressing. Ability, wisdom, and experience command their price, and any limit in salary or compensation is unwise, and dangerous to the policy-holders. It is the duty of the directors to settle this question; and, if they are to be held responsible for

results, they must be free in their selection of men and unhampered in the matter of cost. A universal restrictive law is likely to lead to excessive payment to mediocre men in some cases, and the securing in other instances of incompetent men to solve great questions because sufficient remuneration cannot be offered. The only safeguard against extravagance in official salaries is complete publicity.

In no section of the present law has pure theory in life insurance been so aggressively applied as in the scheme which has been devised for the government of the companies by the policy-holders, and for stimulating in the minds of the policy-holders a more lively interest in the selection of their directors by a popular vote. The experience of the past in so-called "mutual" companies, extending in some instances over a period of sixty years, was ignored; charter provisions which had worked well for the policy-holders in some mixed stock companies were canceled without explanation; the unproven tenet that the "mutual" idea was the only safe one was accepted, and the law was passed.

Let us look, for a moment, at what one might term an ideal company, properly governed. The affairs of such a company should be under the immediate control of a board of directors, who should hold frequent meetings. Throughout the investigation in this State, the legislative commit-

tee was apparently insistent upon the idea that directors should really direct, and that a position of such importance should not be merely honorary. Such an ideal board should be composed of men versed in the various departments of the company's work. There should be some members familiar with the insurance branch of the business; others should be well informed as to securities proper for investment; others still should be capable of selecting bond and mortgage loans; while a certain number ought to be qualified to pass upon general administrative questions. The work of such a board would have to be done through committees. These committees should be carefully selected and should meet at frequent intervals. Such a scheme of government necessitates the choosing of directors who reside or have places of business near the home office of the company. In the case of a New York company they must be New York men if they are to do their work intelligently and satisfactorily. In view of this necessity (which can hardly be controverted, unless the board of directors is to be merely an honorary body) we encounter at once the main reason why the policy-holders at large are necessarily unfitted to cast a direct vote for their directors. Scattered as they are over the entire United States, and in some companies over the entire world, the policy-holders cannot have an intelligent knowledge of

THE LIFE INSURANCE SITUATION 101

the proper men to choose for such important positions. They could select representatives from their own locality, but directors so selected would not be able to fulfill their duties.

That some such choice would probably be made is clearly shown by last year's experience. The policy-holders' ticket in one of the larger companies contained only eleven New York City names out of thirty-six. If the policy-holder is to cast a direct vote, to whom can he turn for knowledge as to candidates? Recent criticism, some of it coming from the framers of the law, would seem to indicate that it is highly improper for any one connected with the company to engage in an educational campaign in favor of the administration ticket. The opposition, however, through the press and other channels, is allowed free rein in its attempt to create unrest and dissatisfaction. Have the framers of this law ever stopped to contemplate what an opportunity is here given for attack by unscrupulous parties with ulterior motives? The delay in counting the ballots received under the present system and the consequent serious damage to the company's interests, are obvious objections to any plan where so many methods of voting are allowed. Possibly some form of indirect voting through an electoral college might render the mutual plan of government more nearly feasible, but this suggestion did not meet the approval

of the legislative committee. It is well, at least, to bear in mind that it has not yet been proven that in practical operation the "mutual" plan of government is either safe or reliable.

One of the most drastic sections of the new law is that entitled "Limitation of Expense." The reckless extravagance of the companies in the mad race for business rendered necessary the curtailing of their expenses, and the result is a statute which not only limits the total expenditures of each company, but also prescribes how much may be spent in the procuring of new business. The idea is a good one, but in its operation many difficulties are encountered. The law is so framed that every agent or solicitor having the company's premium rate before him, and knowing how much must be expended for medical examinations and inspections, can figure out exactly the maximum first commission which the company can pay, and under the ordinary laws of trade is not satisfied until the company has agreed to give him that maximum. No account can be taken of the different value of similar service by different men, the varying difficulty of securing business in different sections, and the greater worth to the company of the carefully selected business of a conscientious agent as compared with that of one of less conservative character. At present every man with whom a manager endeavors to make a contract

knows what the company can pay, and demands the full commission as his right. The metropolitan agent, with his large corps of solicitors and expensive organization, who produces a large volume of selected business, and the rural solicitor who sends in an occasional "risk," are on the same plane. The law has gone too far. Limitation of expense is necessary — insurance men all admit it; but when it has been decided what that total limitation shall be, it should be left to the managers to determine how the money shall be spent; and publicity should be compulsory as to how the funds are used.

This provision of the new law is opposed to the fundamental principle that the conditions existing in each company are different from those of every other company, and that the managers and directors alone can determine the best channel of expenditure to produce the greatest good to the policy-holder. The object of this close legislation was to prevent extravagance in securing new business; the legislators lost sight of the fact that the value of new business is dependent upon the needs and requirements of each company, and that what might be an excessive price for one would be a reasonable price for another to pay for the same amount of business. Much of the business of the companies is secured through solicitors who work under agents and have no direct contract with the company. These agents are not technically limited

as to what they may pay to the solicitor; and if it seems wise to them to forestall some of their renewal commissions, and pay a high "brokerage" to the solicitor, we see the anomaly under the new law of an agent being able to pay the solicitor a greater first commission than the law allows the company to pay. If first commissions are to be rigidly regulated, the law should be so modified as to cover the amount received by the solicitor. This would prevent the high brokerages which are now being offered by the representatives of some companies, which lead to demoralization in the business and the same evils of "twisting" and "rebating" which have prevailed in the past. A limitation in total expense, together with absolute publicity as to the method of expenditure, would provide all the check needed at the present time.

In figuring the item of total expense under any law of limitation, the companies should be allowed to deduct items over which the management can have no control — legal expense incurred in defending suits, taxes, expenses of state examinations, etc. The item of taxes alone is a serious matter, increasing as it does from year to year. In 1905 the life companies doing business in New York State paid out for taxes \$7,500,000.

Following the above suggestion, we come to the new form of annual report now demanded by this State. The general result of any year's work is

supposed to be shown by the "Gain and Loss Exhibit" as contained in the new blanks. This exhibit has one hundred and twenty-five different items, giving in the greatest detail the transactions of the company during the preceding year. These results, as shown by this exhibit, cannot be known to the public until several months after the date of the report, as they appear only in the printed reports of the Insurance Commissioner. Even then, the exhibit is so complicated and technical that it is useful only to an expert, and the result of the year's operations can be determined only by a careful analysis. Publicity, to avail, must be prompt and simple. It would be much better, in my opinion, to do away with many of the questions in the present blank, which call for an immense amount of labor, and to require that, early in each year, not later than March 1, each company shall publish in the newspapers a statement of its business for the preceding year, following a prescribed form to be provided by law. This statement, to be of real value, should show the receipts and disbursements in some detail, the amount of new business secured, the cost of securing it, the amount of insurance in force at the beginning and end of the year, the renewal premium income, etc., so that almost at a glance the public could see whether or not the company was making substantial progress. (At present, the annually advertised

statements of the companies, not being governed by law, contain only those items which redound to the credit of the management.) It might be well, also, to require that a further and more complete report should be mailed to every policy-holder; the cost of this distribution would be money well expended in his behalf. Such a statement should show the disbursements in considerable detail, so that the policy-holder might know just how his money had been expended.

The limitations in the matter of investments, the adoption of "standard policies," the requirement of the present law that a mutual company shall write either non-participating or participating business, but not both, are restrictions of doubtful value, and are inimical to the interests of the New York companies, as they place them at a serious disadvantage in competition with companies of other States.

As the investigation of the New York companies was not finished till December 31, 1905, and the new law was rather hastily prepared and passed during the 1906 session of the Legislature, it is remarkable that its general provisions should be so excellent as we find them. The above criticisms are made in the hope that, carrying out the general intent of the statute, it may in time be so modified as to work less injustice to the New York companies as compared with companies of other States,

THE LIFE INSURANCE SITUATION 107

and be so amended as to allow to the managers of the various companies somewhat greater latitude in carrying out the plans of development which, from their intimate knowledge of their own institutions, they feel to be necessary. The general tendency of legislation should, in my opinion, be less toward rigid restriction and more toward compulsory, intelligible publicity.

THE DISTRIBUTION OF SURPLUS TO POLICY-HOLDERS

AS AFFECTED BY THE INSURANCE LAW OF THE STATE OF NEW YORK¹

THERE is probably no branch of our business in regard to which there is such general ignorance, or, at least, so great a prevalence of erroneous ideas, as on this subject of dividends. This arises largely from the unfortunate selection of the word "dividends" as applied to life insurance. The original meaning of the term, as being simply a "divided portion" or "allotment," has been lost sight of in the popular mind, and we all, unconsciously, perhaps, associate it primarily with that increment of profit from industrial operations or from corporate management of any kind which is distributed or divided among shareholders or partners in an enterprise. Between that form of dividend and the dividend in life insurance there is no analogy, and yet most arguments upon the subject — and, unfortunately, most legislation — is based upon the supposition that both of these forms of dividends are sufficiently similar to call for the application of the same rules in their deter-

¹ Address before the Association of Life Insurance Presidents, December 6, 1907.

mination and the same general style of legislation in their regulation.

We must dismiss at once this false premise. In a "participating" company where the policy-holders "share in the profit" (a most unfortunate and misleading phrase), the simple fact is that the company decides upon a rate of premium, known as the "tabular" or "office" premium, which consists of a certain amount to cover the current cost of insurance and provides for the reserve plus the "loading" or "margin for expense." This last item is made sufficiently large to cover all contingencies, and if in the experience of the company, as demonstrated by its record, the margin or loading is greater than has been needed, the excess or overcharge on each office premium is returned to the policy-holder.

This is the elementary meaning of the word "dividend" as used in life insurance. It is known to all insurance men, but is so imperfectly understood by the public at large and by our legislators that too great stress cannot be laid upon the necessity of clear definition at the very commencement of our consideration of this most important matter.

Let us try to remember, then, that the "dividend" in life insurance is simply a return to the policy-holder of that portion of his premium which the experience of his company has proven to be an excess over the amount required to meet all

incurred obligations and to provide for probable future requirements.

What are the sources from which dividends arise? First, the mortality may be more favorable than that expected under the table upon which the premium is based; second, the rate of interest earned on the company's assets may be greater than that upon which the calculation has been made; third, the expenses of the company may be less than the "loading" which was placed upon the net premium to provide for this item; and, fourth, the company may make profits from miscellaneous sources which accrue to the benefit of the policy-holder.

Let us now turn to the provisions of the New York State law bearing on this subject as contained in section 83 of the present statute. The first important provision is that life insurance companies, notwithstanding the provisions of their charters or certificates of incorporation, shall provide in every policy issued after the 1st day of January, 1907, that the proportion of the surplus accruing upon each policy shall be ascertained and distributed *annually*, and not otherwise.

One of the results of the recent investigation was to establish in the minds of the framers of this law the belief that deferred dividends must be prohibited as being opposed to the best interests of the policy-holder. The discussion of the merits of this

question is not before us, and I simply speak of this matter as indicating apparently the reason why the law was made so stringent and why the division of surplus was limited to an annual division.

Following this requirement of an annual distribution the statute then proceeds to map out the plan which must be adopted. It provides that on the 31st of December each year, or as soon thereafter as may be practicable, every life insurance company shall ascertain the surplus earned by the corporation during the year; that, after setting aside from that surplus such sums as may be required for the payment of authorized dividends upon the capital stock (if any), and such sums as may properly be allowed for the account of existing deferred dividend policies and for a contingency reserve not in excess of the amount prescribed in the law, the remaining surplus shall then be equitably apportioned to all other policies entitled to share therein. This, in brief, means an annual analysis of the company's account and a distribution of dividends based thereon.

We must remember that the factors which make up the dividend are the mortality gain, the interest gain, the saving in expense, and miscellaneous profits. The annual death loss, we all know, is a factor which fluctuates widely from year to year, and of which a proper estimate can only be gained by studying the records of many years. The same

is true, to a certain extent, of the next two factors,—the rate of interest earned and the expenses of the company. Miscellaneous profits vary more widely from year to year than any other factor. Therefore, if a company were to adopt the plan of basing its distribution of dividends upon the actual results of the preceding year, the dividends themselves would be subject to the widest fluctuations. To prevent this the statute provides that a certain sum may be set aside for a contingency reserve, but this very proper provision is, in a way, neutralized by the section referred to, which limits the total of the contingency reserve. There is in the law probably no section so absolutely unwarranted and uncalled for as the section relating to the limitation of the contingency reserve, known as section 87. It is unwise and most dangerous. Had it been passed as originally drafted its effect upon the companies in this year of financial depression would have been appalling and most alarming to the policy-holder. There is no reason why it should not be immediately repealed *in toto*, and it is the duty of the Legislature to undertake this as one of the first steps toward the improvement of the law. It is supposed that, by laying aside a certain amount of the profits for the contingency reserve, the fluctuating factors which make up the dividend may be compensated for. Out of the surplus earned during the year, the

company is also, before the distribution of surplus, allowed to deduct such sums as may properly be held for account of existing deferred dividend policies. The treatment of deferred dividends in each company must depend absolutely on the wording of the policy contract, and in many instances these deferred dividend policies do not call for any distribution or apportionment until the end of the deferred dividend period. How can a company, then, with such outstanding policies be expected or required to segregate for this purpose any amount of money before the time of apportionment actually arrives, and might it not be that by laying aside such a sum it would — inferentially, at least — acknowledge an obligation which does not exist under its contracts? This objection to the provision of the law naturally does not apply to those companies which, even on the deferred dividend policies, have made in the past an annual distribution which, though not paid, has been held as a contingent contract liability.

Even with these reservations already referred to, it appears that it is the intent of the law that the dividends shall reflect in a general way each year the result of the operations of the preceding year. This I believe to be bad practice. The period under observation is too short. If a conservative manager is to provide against possible adverse experience in future years, he will in good

years distribute only a small proportion of his surplus, holding the balance for the years which he knows will surely come when there will be no gain in surplus to divide. Every insurance man knows that if he wants to maintain a contented body of policy-holders, uniformity in the rate of dividend is essential. Extreme annual fluctuations would do more to alarm his clients than anything which could happen. If it is the intent of the law to have the distribution indicate each year to the policy-holder the result of the preceding year, what are we to do after a year like 1907? The law states that at the end of the year we must ascertain the surplus earned and then proceed to divide it. The legislators did not seem to regard it as possible that any company should in any year fail to make a surplus, or was it their intention to imply that if there was no surplus made in any year there should be no dividend paid in the next year? To many companies this becomes a vital question now, as governing our action next year. Were the period of analysis and distribution made to recur every five years, the average of those years would do away with these fluctuations. This is the British system. If we are to have annual distributions, there must be no limitation to the surplus and the greatest latitude given to the management in determining what it is wise to pay and what it is wise to hold as contingent reserve for future times.

of stress. Companies which have in the past successfully paid annual cash dividends have not been restricted by law on this subject of distribution.

There can be no wise legislation on this subject, except of the most general character. If the law such as we have upon our statute books to-day is adopted, specific in its requirements and universal in its application, the greatest injustice is done to the policy-holders. In a company writing participating policies the distribution of surplus is the one item which above all others must be left to the discretion of the management, — that is, to the officers and directors, — and they should be held responsible for the wise discharge of their trust. Is it the business of the State to determine what dividends shall be paid? If so, there is only one proper way to do it, and that is to have the Department of Insurance examine each company separately and distinctly and declare its dividends. This is carrying state supervision to a point which we think should appeal to very few persons. No two companies are alike. Probable future mortality, the nature of the assets, the character and age of the outstanding insurance, a thousand and one internal conditions must all be taken into consideration before a dividend can be intelligently and safely declared. These factors vary in the various companies. How different the Armstrong Law would be if the framers of it had only borne in

mind that in this most complex business of ours each company must work out its own development along lines adapted to its peculiar requirements and based upon its particular needs. The form of specific and detailed legislation which is forced upon all companies alike by the present New York law has reduced insurance management to a dull and uninteresting level of mediocrity, destructive of growth and fatal to the application of intelligent thought.

But this is not the worst feature of the legislation, and it must be borne in mind that no criticism of the law will be listened to at the present time which is made from the standpoint of the interest of the insurance manager in his honest desire to develop his business. If the law is to be criticized or changed, it must be shown that it is bad for the policy-holder. It is rather early to observe the actual effect of this particular statute regarding dividends as affecting the interests of policy-holders, but a few tendencies may already be discovered as a result of the new law.

The idea has been forced upon insurance managers that the annual distribution is to be the index of progress, and the temptation is tremendously strong to pay a large annual dividend whether such a course is warranted or not. Except in so far as the law directs that the dividends shall be "equitably" distributed to the policy-holders, it does not

specifically state that no dividend can be paid on a policy which has not contributed to the earnings of that dividend, yet I believe that this was the intent of the law. Already, however, we see that the competition between the various companies is to be based largely upon the size of the annual dividend paid, and it is probable that the managers of insurance companies will go so far as even to pay a dividend upon the first premium. No one for a moment asserts that this dividend is earned, because under our new law the mortality gain from the new business and the entire loading of the first premium are used for the expense of securing new business. I have yet to hear of any actuary who defends the payment of such a dividend on the first premium, except on the general ground that the competition for business demands it. Companies which have declared such dividends in the past have made the payment only to policy-holders who have paid the second premium; but, under the present law, the dividend, if declared, must be paid even if the policy lapses. In this competition, based upon the size of the annual dividend, and in this payment of a dividend upon the first premium (which I believe we must all admit is not earned), I think conservative managers of life insurance companies may see the beginning of a tendency resulting absolutely from this new law which is most dangerous for the welfare of the

policy-holder. No one is a greater believer than I in the proper distribution by a strong company of a large dividend to its policy-holders, but suppose a company finds itself becoming somewhat weakened and feels that it must have new business in order to infuse new life into the corporation, how great the temptation will be under such conditions to pay a large dividend for a series of years, even if it is not earned, in order to create in the mind of the public the idea that the company is making successful progress; and this annual dividend will be studied more carefully by the policy-holder than any public statement of the financial condition of the company in the insurance reports.

This tendency is likely to lead to recklessness of management more serious in its consequences to policy-holders than any evil which we have seen in the business for the last twenty-five years. The actual effect of extravagance in dividend payments has been felt of late in some English and Scotch companies, and it is already realized in Great Britain that large dividends, as a result of keen competition, may do an irreparable injury to the companies. I have offered this objection to some of the defenders of the present insurance law, and the reply is that if such dividends are paid the gain and loss exhibit will indicate clearly to the policy-holder the tendency of the company. My answer to this is that the gain and loss exhibit,

with its multitudinous and complicated questions, does not present to the public a statement which can be comprehended, and that from such a mass of figures expert accountants with ingenious minds can deduce almost any conclusion which they desire by specious reasoning and by misleading ratios. In my opinion, all that we need in the regulation of this dividend question, which carries with it the question of contingency reserve, is absolute and simple publicity, with entire discretion given to the managers of the companies as to how much shall be distributed. I believe that the distribution should not be compulsory each year, but that it should be left to the management to make their distribution at regular intervals which they may select, — not, however, to exceed five years.

After all, the question of dividends is simply this: the company starts with a certain surplus at the beginning of the year, its business is conducted throughout the year, and at the end of that time its assets and liabilities are calculated. A certain surplus then remains. The company has either gained or lost surplus during the year. It makes little or no difference from what source it has been derived, except as a careful study of those sources shall aid the managers in determining what division is wise. The division, whether it be made annually or every five years, should only be arrived at after a careful study of this simple statement.

Publicity, to be effective, must be simple and easily understood. The present gain and loss exhibit, while apparently offering the greatest publicity by reason of its detail, is of no earthly use to any one but an expert actuarial accountant.

The provisions of the law regarding the method in which the owner of the policy may receive the dividends or apply them for the reduction of his premium payments, etc., are not particularly objectionable and require no special comment.

The next provision of this section is as follows:—

The dividends declared as aforesaid in the case of a policy issued on or after the first day of January, 1907, shall be payable respectively either upon the anniversary of the policy next after said thirty-first day of December or upon a day certain in the year following said date, according to the rules of the corporation or the terms of the policy, and upon the sole condition that the premium payments for the policy year current upon the thirty-first day of December shall have been completed.

In view of the fact that the accounts of the company cannot be properly analyzed immediately after the 31st day of December, it would, if this section were to be strictly interpreted, become necessary to defer the payments of dividends to those policy-holders whose premiums become due in January, February, or March until some subsequent fixed date in the year. This would be contrary to all past practice, and consequently con-

fusing to the policy-holder, who has been educated to expect that with the notice of his premium on a participating policy he will also receive advice of the amount of the dividend.

While there is some confusion as to what the ruling of the Insurance Department has been upon this matter, it seems to be generally conceded that some sort of an estimate may be made to cover the case of the policies above referred to, so that in every instance dividends may be made payable upon the anniversary of the policy, which is as it should be. I think that the authorities are doing all in their power to correct the confusion in this part of the section, but it is only proper to call attention to it as indicating the inaccuracy of the law and the necessity for its prompt revision.

A method adopted by many companies in the past with success has been to analyze the accounts as soon as possible after December 31; to then determine the total amount of dividends to be paid; and, as a final step, to allot these dividends to policies whose anniversaries occur from May 1 following and during the succeeding twelve months.

Before closing, there is one matter indirectly bearing upon this general question of dividends which should not be passed without notice.

The law provides that the part of the surplus set aside for dividends shall be apportioned "equitably" to all other policies entitled to share therein.

In the general expenses of the companies, there is the item of state taxes which is becoming one of greater importance each year, as it is being increased by local legislation in our various States. This tax bears a varying ratio in the different States to the total premiums received and in some instances is becoming almost prohibitive. This is a question which must sooner or later be seriously considered by life insurance managers in strictly complying with the terms of section 83. Is it proper to charge the total state taxes against the total premium receipts, thereby affecting the dividend distribution which the law says must be equitable?

If a certain State or locality imposes a tax upon the premium receipts of that locality, is it equitable and fair that that tax should be paid by the policy-holders in general? Would it not be more fair and more equitable to allot and apportion the dividends without reference to the tax paid and then to deduct the tax in each instance from the dividend declared? By this method the policy-holders of each State would pay the tax which their own representatives imposed and the burden would rest where it fairly belongs.

The educational result of such a line of action in showing to policy-holders that they themselves pay the taxes out of their premiums would be of incalculable benefit to the policy-holders them-

selves, for, while during the present period of reform, economies are demanded all along the line, the only item of expense which shows an increase is the tax paid for the right of transacting business.

In the foregoing I have limited myself to a consideration of the section of the New York law relating to distribution of surplus. Many of the criticisms could be properly directed against the entire Armstrong Law and against the present trend of insurance legislation in the United States. It is all too specific, and goes into too much detail. In the desire to check evil the entire machinery of life insurance has been thrown out of adjustment. The varied requirements and needs of the different companies have not been taken into consideration, and all, with greater or less degree, have been injured by uniform legislation. When I say the *companies* have been injured, I mean the policy-holders. Our business in its growth and progress has been checked. This is a national calamity. A young, vigorous, progressive, speculative nation like ours needs life insurance upon which it may depend, especially in times like these through which we are now passing; and, although the idea at the moment is somewhat unpopular, I am of the belief that the life insurance official who upon proper lines increases the size of his company, and by aggressiveness and skill through an able body of agents educates the American people to a belief in

the beneficence of life insurance, is not, and should not be, in the eyes of the law, a culprit and criminal. Our law defines exactly how insurance may properly be written, and then makes it a misdemeanor to write too much of it. How can a life insurance president map out any scheme of virile and healthy progression when at every turn he finds himself confronted by barriers which destroy all individuality of thought and originality of plan? Life insurance to-day is like an automatic slot machine, requiring no management and no brains. Uniform standard policies, uniform rates of commission to agents where the limit is known to all (good and bad receiving the same compensation), limitation in investment, a cumbersome and unworkable system of election, limitation in the amount of insurance which may be written, limitation in the protection of the policy-holder by a proper contingent fund, every encouragement given to the payment of too large dividends, the granting of wide powers of discretion to the Commissioner of Insurance (a most dangerous condition, unless that office be filled by a man of rare knowledge and absolute singleness of purpose),—these are some of the fetters which hamper us now in the management of the trust confided to our care. The time is near at hand when we, the custodians of the great life insurance interests of this land, must, for the salvation of our business and

the protection of our policy-holders, convince the people of this State and their representatives of the unwisdom of the present scheme of insurance regulation. When this has been done, let us hope that new legislation will be on the line of strict accountability on the part of insurance officers and directors for honesty in the conduct of the business; that the new laws will enforce simple and intelligible publicity; that in details of operation the power of decision and responsibility therefor will be vested in the management; and above all, that the new laws will encourage and promote the growth and development of this most necessary and beneficent institution of life insurance.

GOVERNMENT INVESTIGATION AND REGULATION¹

EVER since leaving college I have followed rather closely the trend of university thought, particularly in regard to governmental investigation and regulation of business interests in this country, and I am pleased to notice the increased interest which is being shown each year by our students in the practical questions of American commercial life.

How far it is wise for the State, or the Nation, to go in matters of this sort is a question which is bound to become one of more serious moment each year, and the student of our financial problems must approach this subject with a mind absolutely free from all prejudice, if he wishes to thoroughly appreciate and understand the effects of governmental investigation and regulation.

In considering any subject of this character, the advantages or disadvantages of any particular system are perhaps best shown by a concrete example, and we have had before us recently in this State an illustration, which is perhaps without parallel in the history of this country.

A brief review of the investigation of life insurance companies by the Senate and Assembly of

¹ Address delivered at Cornell University, May 16, 1908.

this State and a cursory examination of the law which resulted from this investigation will be profitable.

In July, 1905, a Joint Committee of the Senate and Assembly was appointed to investigate the life insurance companies doing business in this State, and to recommend to the Legislature a law for their proper regulation and supervision. The committee organized on *August 1, 1905*, and held public hearings from *September 1, 1905*, to *December 30, 1905*, a period of only about three months and one half. I wish to emphasize these dates. On *February 22, 1906*, less than two months after the closing of the public hearings, a voluminous report was submitted to the Legislature, which report was concluded by a bill, introduced on February 22 in the Assembly, which was at once referred to the Committee on Insurance. In its report the Committee states that it was found impossible to submit to a thorough examination companies chartered outside of the State, or to embrace within its investigation all classes of domestic life insurance companies; that their attention was confined to companies organized within the State issuing policies on a level premium basis, and even in this limited class such were the variety and perplexity of the subjects requiring consideration that the examination of the affairs of any one company could not be made exhaustive.

The present law, which is the result of this investigation, can be only understood and appreciated, if we firmly establish in our minds the fact that the investigation was incomplete and necessarily cursory by reason of the short space of time devoted to it, and that it did not undertake a comprehensive investigation of the life insurance of the country. No time whatever was devoted by the committee to the investigation of life insurance methods in other countries. The committee did not consist of experts in life insurance affairs; and its members, prior to the investigation, did not claim to have a knowledge of the intricacies of the life insurance system. The committee had, as its expert adviser, one consulting actuary, but no practical life insurance manager.

Remember especially that the entire period covered by the investigation was only three months and one half, and that less than two months were subsequently given to a careful review of the information gained and the codification of the new law. If we bear these facts in mind, we can easily understand the crudeness of the present law, and can readily excuse its inconsistencies and can see the reason why, in many particulars, it is so ill-suited to the practical requirements of our business.

The investigation developed in certain quarters revelations of a somewhat alarming character, and necessarily the objectionable features of the busi-

ness which were brought to light had to be followed by the committee to the bitter end. The result was that little time was devoted by the committee to a general investigation of life insurance methods and policies, but the great bulk of the time was necessarily consumed in a close inquiry into specific methods which were open to criticism. These revelations, of course, astonished the public in general, and became a fruitful source of sensational articles in the press. As a natural result, public indignation was aroused and a strong public sentiment was created against life insurance companies, so that, when the investigation was concluded, the public mind was then in such a state that it demanded immediate and drastic legislation, and public clamor became a powerful factor in the subsequent legislative action.

As already stated, the proposed law was introduced in the Legislature on February 22. In April the law was passed — eight months was, therefore, the total length of time consumed in the investigation of life insurance companies, in the framing of a proper, revised statute, and in its final adoption.

When we consider the revolutionary character of the present insurance law, the scope of its application, and the amount of detail which is covered in it, one can hardly believe that it is possible that such a vast subject could have been thoroughly and properly covered in so brief a period.

This is the history of the preliminary steps which led to the passage of the present insurance law.

Before we pass to any analysis of the law I wish to call your attention to a recommendation included in the report of the Joint Committee, which is full of wisdom and which would have been a proper basis for legislation on this most important subject.

The committee says in its report: —

The Legislature cannot undertake the management of the business. In seeking to secure economical administration, it should not overstep the line which divides suitable state supervision from an impracticable effort to prescribe details. The Legislature should aim to permit freedom of management subject to general regulations and complete publicity.

This recommendation should be emphasized, as it was evidently inserted in the report as a check to the existing public clamor, which the committee recognized, but unfortunately, in framing the statute, the principles laid down in this statement were, in many instances, ignored, or forgotten.

In reviewing the law I wish it to be distinctly understood that I do not offer my remarks at all in a sense of carping criticism of the statute, nor do I for a moment desire to attribute to the committee, or the framers of the law, any but proper motives.

As I view the circumstances which led up to the legislation, and as I consider the very brief time

which was given to the consideration of the subject, I am amazed, not at the crudeness and inconsistency of the law, but at its completeness. It is not proper, however, to pass over in silence its many defects, which were apparent to insurance managers before it was passed, and which now, in view of the practical operations of the last year and one half, have been proven to be unwise and in some instances pernicious.

I do not feel that within the time at my disposal I can enter into any detailed explanation of the present law, but will simply call your attention briefly to one or two of its features which should be understood.

The most important section is that relating to the "limitation of expense." This limits the company's expense on new business to a fixed sum based upon the margin of expense provided by the first premium, plus a supposed mortality gain from the selection of new lives. The expenses which are included in the category of first year's expenses are the medical fees, cost of inspections of risks, commissions and agency advances. After the first year the company is limited to a renewal commission of a fixed amount for a fixed number of years and any excess above these provisions is a misdemeanor under the law. No statute governing any business that has ever fallen under my observation is more detailed or more drastic than this particular sec-

tion 97. It absolutely defines what money may be spent for the procuring of new business, and for its care after it has been placed upon the company's books. It permits no arrangement with an agent whereby the compensation may be based upon his success. It advertises to every man in the business the maximum amount which the company may pay and makes it impossible for an insurance manager to economically hire his men. It is absolutely and fundamentally opposed to the recommendation of the committee which has already been quoted, namely, "that the Legislature should aim to permit freedom of management, subject to general regulation."

This section has perhaps been more disastrous in its effects than any other section contained in the revised statute. The object of the section was manifestly proper — that is, to prohibit extravagance and to curtail reckless expenditure. This it may have done, but it has incidentally killed all individuality of method and all elasticity in our business system. It has taken the life out of the business and wrecked the agency organizations of the companies. This statute absolutely overlooks the fact that the various companies are surrounded by different conditions and that no universal rule of detailed expense limitation can be devised which will be fairly applicable to all companies.

The fundamental ideas of business growth and

development are assailed and overthrown in their underlying principles by this section. It is based upon theory only, and not upon any practical experience in our business.

It would be interesting to study minutely the effect of this particular feature of the law upon the business of the companies, but unfortunately we have not time at the moment for such a detailed analysis.

Section 87, providing a "limitation of the surplus" of the companies and compelling them to distribute to their policy-holders all profits above a certain limited surplus, is another provision of the law which is based upon unsound reasoning. This section, in particular, was assailed at the time of the public hearing, before the bill was adopted, but it was finally passed in an amended form. It makes it a misdemeanor for a company to accumulate surplus above a given figure. It takes away from the management the ultimate judgment as to how much or how little of the company's profits shall be laid aside as a safety fund for the future. Indirectly it must free the directors and managers of life insurance companies from the responsibility which should be theirs in a careful and conservative safeguarding of the interests of their institution.

Closely allied to this section is section 83, which has to do with the "distribution of the surplus" to

the policy-holders. This particular section should never have been adopted until it had been carefully gone over by a committee of practical life insurance actuaries, and a proper law upon the subject drafted by such a committee. The object of this particular section was to insure to the policy-holder his full and proper share each year of the surplus earnings of the company. This is not accomplished by the present law. It is based upon an imperfect knowledge of the nature of dividends in life insurance and their true meaning. It is unwieldy and cumbersome in its operation, and its tendency is toward competition in the line of extreme dividends, which in the case of weak companies may become in the future a source of positive peril to the policy-holders.

The investigation brought to light several transactions in the matter of "investments" which were open to criticism, the result of which was that section 100 was inserted in the law governing the matter of investment.

All investments in stocks are now prohibited by law, and the companies are compelled, within five years from the 31st of December, 1906, to sell all of their stocks. There is a grave question as to the constitutionality of this latter provision, but any law, even if constitutional, compelling a company to part with investments, purchased in good faith, within a limited period is likely to work an

injustice to the company and possible loss to the policy-holder. The responsibility for proper investment of funds rests with the directors, or the finance committee of each company, and the effect of this law is to divide that responsibility by relieving the management of choice in the selection of its investments. A further provision was inserted in this section by which so-called "collateral trust bonds" were made an illegal investment. Any close student of railroad finance is perfectly familiar with the fact that during the last fifteen years the tendency in the matter of bond issues is toward the collateral trust bond, a form of bond which, if properly issued and properly safeguarded, may have behind it as much security as could possibly be obtained under a first mortgage. No discretion is given to the companies to select the good bonds and discard the bad bonds, but an arbitrary line of demarcation between the mortgage bond and the collateral trust bond has been established, which, in the mind of the Legislature, evidently is supposed to separate the good from the bad. Many of the best railroad securities of the country are now placed beyond the pale, and cannot be used by the companies in the investment of their funds.

"Valuation of securities." This subject, which is one of the greatest importance, was not sufficiently looked into by the revisers of the law, and the matter of valuation now rests largely in the discre-

tion of the Superintendent of Insurance — a tremendous power to place in the hands of any one man.

A proper system of valuation, based upon amortization of fixed-term securities, could have been readily devised, which would have been just and fair, and beneficial to all interests concerned.

The law also prescribes standard forms of policies, and these standard forms include most liberal provisions for policy-holders who desire to borrow upon their policies, or to surrender them for cash. Every leniency is given to the retiring policy-holder and little attention is paid to the interests and rights of the persistent policy-holder. A tremendous injury has been, in my opinion, unconsciously done by the provisions of the new standard policies in the matter of loans and surrender values. At first blush it seems as though this were in the line of general improvement of policy conditions, but the close student of the subject who bases his opinion upon practical experience cannot but see in the present tendency a great menace to the future of our business.

The law went even further and undertook to regulate the matter of "internal management" in the companies. There seems to have existed in the minds of the legislative committee a preconceived conviction that the "mutual" form of government was the only wise plan for life insurance companies,

and at the very start of the investigation, an attempt was made to collect evidence in support of this view.

This attempt was unsuccessful and the committee was powerless to establish the fact that there ever had been an election in a mutual company which was representative or effective. The theory, however, was maintained and introduced into the new law and a most elaborate election scheme was devised, the object of which was not only to give the policy-holders a right to vote, but to compel them to vote, if possible, whether they wanted to or not. Under this plan the companies have been placed under a great expense, opportunity has been given to unscrupulous parties to unnecessarily alarm the policy-holders, and it is difficult to see how, in its cumbersome details, the law can be either effective or good. The makers of the law were so wedded to the idea of mutual government that they inserted in the law also a provision by which companies could arrange to change from a stock or mixed form of government to the mutual form. This question of interference in matters of internal government is one which sooner or later must be taken up thoroughly and the law carefully revised.

Such are, in brief, a few of the points covered by the new law which seem to me to be open to criticism.

Let us look for a moment at the effects of the new law.

In the first place there has been a most tremendous shrinkage in new business, and the suffering and loss has not been confined to those companies which were criticized by the committee in its report.

In the report of the Superintendent of Insurance, issued in January of this year, he states that in 1904, the year before the investigation began, the New York State companies wrote in new business \$1,147,000,000 and carried a total insurance of \$5,970,000,000, and that for several years prior to 1904, the New York State companies had shown an increase from year to year in insurance of from \$300,000,000 to \$600,000,000. In the year 1907 the issue of new business by the New York State companies was \$455,000,000 and the total insurance in force was \$5,859,000,000; compared with 1904, the total new business of the New York companies was less by \$692,000,000, and the total amount of insurance in force had decreased \$111,000,000.

It must be conceded that the institution of life insurance is a very necessary factor in the economic life of any country. In view of the comparatively undeveloped condition of our country, there must be a large speculative element in its business ventures, and consequently the business men of this

country must protect themselves by insurance to a greater extent than would prevail in a more conservative and settled country.

Whatever may have been the advantages accruing from the restrictions of the law, the serious injury which has been done to the great insurance companies of this State is a matter of no trifling importance, and one is forced to the belief, after a careful study of the situation, that the breaking-down of the organization of these various companies will, in the end, involve serious loss to the policy-holders.

There was nothing in the facts brought out by the investigation to warrant such a slaughter of the vast interests of our life insurance companies.

Another result of the investigation is that the public has been led to believe that what is needed is the greatest possible amount of insurance for the least possible amount of money — that is, that cheapness in the matter of insurance is the most essential feature of the contract. Under the conditions imposed by the new law, "term insurance" and "non-participating insurance" have become very popular; investment insurance — so called — and endowment insurance are discouraged. For the young men of the country who are endeavoring to build up a personal fortune, or at least a competency, nothing is so productive of thrift and prudent living as an investment in endowment

insurance. The records of the various companies show that this form of insurance is profitable for them as well. The new law has affected this form of insurance most adversely, having followed in this regard the personal ideas of some of the committee's advisers. The law is leading to the keenest competition in the line of dividends to policy-holders, a practice which is a dangerous basis of competition and yet a direct result of the law, which prescribes the method of distribution of surplus, limits the amount of surplus, and insists upon an annual distribution. The companies under the pressure of this competition have already declared dividends at the end of the first year, when the actuaries admit that such dividends have not been earned, and further, under the new law these dividends are payable to the policy-holder whether he renews his policy or not.

High pressure of former days in hiring agents is not nearly so serious in its effect upon the general condition of the company as an unwise and too liberal distribution of earnings to policy-holders. The liberality inserted in the present policies in the matter of surrender values and guaranteed cash loans is an element which may cause great trouble in the future. It takes away from the company the power of recuperation in the event of adverse experience, and gives to the healthy lives insured in any company an opportunity of retiring

when the slightest breath of suspicion strikes the company in which they are insured. Under such conditions the natural result upon a weakened company would be that the healthy lives would retire, the uninsurable lives would remain, and the chance of saving the company by economic administration during a short period of years would be defeated by the liberality of the present statute. Under the present law there are possible dangers, similar to those encountered in the past by assessment companies, and these possibilities the conservative manager views with alarm as he forecasts the future. *Liberality to all policy-holders* should be the basis of correct life insurance management, not liberality alone to the retiring policy-holders. Absolute fairness and justice to the entire body of policy-holders is all-essential. It would have been well if the legislators had had this principle more forcibly impressed upon their minds.

Another effect of the law is that under its provisions there has been a strong impetus given to the forming of new companies all over the country. By remaining out of New York State, these companies are able to pay commissions far in excess of those which we can offer; they appeal to local pride and prejudice, and they are reaping a rich harvest; in many instances they are not being conservatively managed, and what the history of these companies will be during the next five years

no one can predict. The business men of this country are taking insurance in these new and untried companies to an extent which is certainly appalling. The fact that this new law is limited to this State, and the fact that its restrictive provisions have not been copied by other States, has encouraged the formation of these companies. Their future history, their possible failure, the consequent distrust of life insurance in general, are all factors which the framers of this law should have considered in advance and which we cannot disregard in viewing the present situation.

Such has been, in brief, the history of the agitation which led up to the present law.

Such are some of the provisions of the law and some of the effects which have resulted from its enactment.

In this instance, we have a typical example of paternal and restrictive legislation from which useful deductions of a general character may properly be drawn.

The nation will, in the future, look to its educated men to handle questions of government. The socialistic tendencies of the times, the constant agitation which prevails between the conflicting economic forces of labor and capital, the promotion of the best business interests of this country, are all questions which in the next fifty years will have to be considered and solved by the young men

who are leaving our colleges to-day. The subject is interesting. The tendency to attempt to correct all evils by legislation is at the present time growing, and we are becoming, as was stated to you a few days ago by the mayor of our city, "the most governed people of the world." There is a peril in this tendency which we cannot overlook. No more sensitive organization exists in the body politic than the business interests of the country. The slightest breath of suspicion, the slightest intimation of undue interference, the slightest indication of unfair prejudice at once destroys credit and ruins confidence. If evils exist they must be corrected by a wise and cautious system of interference. Nothing can be more contrary to the spirit of our magnificent institutions than the general course adopted in the handling of the insurance question in this State. Here was a matter of the greatest interest to us all, a subject more complicated, more vast in its ramifications than almost any business which could be selected. Life insurance is a science requiring years of study and expert knowledge before it can be thoroughly comprehended in its true relations. In less than a year, untried and uninformed men had the courage to investigate this tremendous subject, to reach conclusions and to enact laws absolutely revolutionizing the entire conduct of our business. Here is an example of a tendency which unfortunately is national, which

spreads all over our vast country, namely, the tendency to do every thing in a hurry, and to undertake our reforms superficially. A proper consideration of this vast subject should have covered years of investigation. It should have been followed by recommendations made by a commission composed not only of legislators, but also of men tried and experienced in the business; and the law, as finally framed, should have been the result of mature and careful study of the subject.

The reformer meets such a suggestion by the statement that the business men of this country cannot be trusted to recommend safe reforms. That oft-repeated charge I absolutely resent. The vast business of this country could not have been successfully conducted in the past had it not been a well-established fact that a dishonest man in business is a rare exception, and that permanent commercial success can be obtained only by methods which are above suspicion.

It is time for the men who are managing our great corporate interests, who are known as our "Captains of Industry," to lay aside undue modesty, and to step out in the open and defend their position.

It is most encouraging to see the keen-eyed, clear-minded college men with orderly brains and trained intellects being sent out each year by our institutions of learning to devote their lives to the solu-

tion of the great economic questions which are before us. To the solution of these problems, they must bring all the wisdom at their command, but more than that is needed. I have met some of them, honest and enthusiastic, who in their work in connection with governmental bureaus seem lamentably weak in practical common sense, and good old-fashioned, hard-headed powers of reasoning. Theorists they seem to be with their heads in the clouds, but no solid foundation under their feet. These are the dangerous reformers whom we most dread, because their arguments are plausible and their motives pure.

My message to all young men who intend to interest themselves in these problems is a most simple one. Never forget that the wisest men are the most modest. Tolerance of others' opinions is the "hall-mark" of the broad thinker. If you intend to institute a reform in any particular line — first study it from every side and from top to bottom. Consult with the best-posted, practical men in that line. Before you act, digest thoroughly the material collected, and above all remember that the most effective reforms, particularly in business, must be gradual and cautious. Spectacular appeals to prejudice, incomplete and imperfect investigations, hasty legislation, public clamor, pride of opinion — these should have no place in the programme of the true student of American economics. We

need caution, wisdom, tolerance, patience, the good old-fashioned virtues, and it is to the young men of the land, who are college-bred men, that we naturally turn to find these qualities.

The business men and the business interests of this land need your support and assistance. It is your duty to undertake the work with all your strength of early manhood, tempered by discretion and the wisdom which should result from the educational advantages you have enjoyed.

Just a word in closing on the general subject which is before us.

The present tendency toward close and detailed regulation of the business of corporate life is, in my opinion, unwise and unpractical. Honesty of management and fair dealing to all we must have, but this result cannot be accomplished by simply filling our statute books with laws restraining all individuality of thought and action, and destroying the elasticity of the system. Commercial nations of the world are watching this country in its solution of its present difficulties, and the greatest caution should be exercised that the reforms which we are now instituting should be adopted only after the most mature and careful deliberation.

I wish that the general principle laid down by our Insurance Committee, which I have already quoted, could become a maxim upon which our future course would be based.

The time is near at hand when the custodians of the great business interests in this country must, for the salvation of their business and the protection of all concerned, convince the people of this State and their national representatives, of the unwisdom of the present tendency of minute business regulation. When this has been done, let us hope that the new legislation will be on the line of strict accountability on the part of all managers and directors of corporations for honesty in the conduct of their business; that the new laws will enforce simple and intelligible publicity; that in details of operation the power of decision and responsibility will be vested in the management, and above all, that the new laws will encourage and promote the growth of the business interests of this country upon which we must depend, if we are to continue in the splendid line of commercial development which has marked our national career up to the present moment.

EFFECTS OF THE NEW YORK STATE INSURANCE LAW¹

DURING the last few weeks several articles have appeared in the daily papers of this city, in which an attempt has been made to show that the effects of the present New York State Insurance Law have been beneficial to the policy-holders.

Such a deduction might readily be drawn from a superficial study of the recent reports of the Superintendent of Insurance, but a close analysis of the figures reveals a tendency in certain directions which is not altogether a source of congratulation. We will not discuss the recent retrogression of New York State companies and the advance made by "foreign" companies, but will limit our inspection to the record made by the Equitable, Mutual, and New York Life. In an article recently published in the "Evening Post" appears the following statement:—

The effect of the new order of things has been to increase the returns to policy-holders and thus lower the net cost of the protection secured. In the case of the three largest companies — the New York Life, the Mutual Life, and the Equitable — the total payments to policy-holders last year aggregated \$149,494,000, as

¹ Circular sent to all policy-holders April 12, 1909.

against \$111,161,000 in 1904, when the volume of new business written was almost threefold greater.

One would suppose from this broad statement that the total increase in payments to policy-holders, namely, \$38,000,000, had inured to the benefit of the policy-holder, and that the net cost of his insurance had been decreased by this amount.

An analysis of the figures shows that the greater part of this increase has arisen from the larger payments for death claims, endowments and surrenders, and that the increase in dividends, which is the only factor which can decrease the cost of insurance, was only about ten per cent of this sum.

The following table shows the amount of insurance in force in these three companies at the close of each of the last six years. Also the death claims paid during the last six years.

	<i>Insurance in force</i>	<i>Death claims</i>
New York Life, Dec. 31, 1903.....	\$1,745,212,899	\$16,860,082
1904.....	1,928,609,308	19,734,245
1905.....	2,061,593,886	20,822,968
1906.....	2,029,605,718	21,525,407
1907.....	2,005,341,184	22,761,595
1908.....	1,993,559,601	22,131,291
 Mutual Life, Dec. 31, 1903.....	\$1,445,228,681	\$18,946,053
1904.....	1,547,611,660	21,100,227
1905.....	1,589,549,468	20,926,068
1906.....	1,517,257,180	21,034,051
1907.....	1,452,752,408	23,294,030
1908.....	1,438,399,803	21,664,823

	<i>Insurance in force</i>	<i>Death claims</i>
Equitable Life, Dec. 31, 1903.....	\$1,409,918,742	\$18,318,483
1904.....	1,495,542,892	18,049,539
1905.....	1,465,123,436	18,646,359
1906.....	1,376,676,369	18,695,395
1907.....	1,340,126,354	18,992,080
1908.....	1,326,478,540	20,324,003

The amount of new insurance secured by these companies has shown a heavy decrease during this same period. In the New York Life, the *new premiums* received have decreased from \$14,000,000 in 1904 to \$5,424,000 in 1908. In the Mutual Life, the decrease for the same period has been from \$9,000,000 to \$2,853,000, and in the Equitable from \$8,500,000 to \$2,724,000. The ratio of *new premiums* to *renewal premiums* has shown the following decrease: in the New York Life from 21.82 to 7.53 per cent; in the Mutual, from 19.03 to 5.93 per cent; in the Equitable, from 17.05 to 5.83 per cent.

We therefore see that in these three companies the amount of insurance in force has been steadily decreasing, and that the ratio of infusion of new life has been steadily decreasing. With this condition prevailing, one result and one only must follow; that is, the mortality ratio must eventually increase, and probably that increase is already being felt.

It is impossible for us to obtain a detailed analysis of the mortality of these three companies during the period covered in this discussion, but the

following ratio may give some indication of what is taking place. The percentage of *payments for death claims to total insurance in force* during the last six years in the New York Life has increased from .97 to 1.11 per cent; in the Mutual, the increase has been from 1.31 to 1.50 per cent, and in the Equitable, from 1.30 to 1.53 per cent. For a certain period, the saving in expense, by reason of the small amount of new business written, will be sufficient to offset the increase in death claims, but it is by no means a healthy sign when we see a company decreasing its insurance in force, nor is this a situation which can be viewed with equanimity by the persistent policy-holder.

In the past it was a recognized principle in the conduct of life insurance business that the interests of the *persistent* policy-holders should be conserved to the greatest extent, and a substantial charge was made against those policy-holders who retired, which charge was, of course, a source of profit to policy-holders who kept up their contracts. This source of income is decreasing, owing to the liberal provisions of the standard policies which are required under the New York statute. The decrease in this former profit is a matter which the persistent policy-holders will realize more fully in the future, but the effect of the change must not be forgotten in an analysis of the results of the present law.

The prime object of life insurance is to protect the insured's dependents against the inevitable loss which results from his death. The standard policies at present prescribed by the New York Law contain the most liberal "loan provisions." These loans are guaranteed, and the companies must stand ready to make good the guaranty at any time on immediate notice from the insured. These loans are not used in the majority of cases to keep the policies in force, but the policy becomes quick collateral, which, upon the slightest provocation, can be used as an asset by the holder of the policy. Loans so made to the policy-holder decrease the amount of protection which his dependents receive in the event of his death, and by such loans, unless they are used for the purpose of continuing the policy, the object of life insurance is in part defeated.

It is not by any means an encouraging sign to see these loans increasing as they have during the last six years by reason of the great publicity which has been given to this privilege, and by reason of the fact that the attention of the policy-holder has been called to a privilege which, in many instances, he was previously ignorant of. The figures are certainly astonishing! In the New York Life, since 1903, the loans to policy-holders have increased from \$31,600,000 to \$87,000,000. In the Mutual, from \$19,000,000 to \$63,000,000, and in

the Equitable, from \$19,000,000 to \$57,000,000, and obviously the protection under the policies in these companies has been decreased by these amounts.

The criticism of the present law is not limited to the officials of New York State companies, whose opinion is regarded by many as possibly influenced by their own personal interest.

Mr. George King, F.I.A. and F.F.A., consulting Actuary of London, in commenting on the present New York State Law, said:—

I think it will be found very speedily that the new laws will seriously and injuriously hamper the conduct and development of life assurance business, and it is the public who will suffer. Therefore, I anticipate that before long there will be a strong reaction and that the restrictions now imposed will be greatly relaxed.

He further says:—

I believe that Governments should confine themselves merely to seeing that the companies give to the public the fullest possible information on every important point. Since 1870, this principle of liberty and publicity has prevailed in the United Kingdom, and has been productive of untold good.

He says further:—

Were restrictions to be imposed, responsibility would be removed from the shoulders of the management. Initiative would be lost, and progress would thus be impeded. Moreover, the public would come to rely more on the Government regulations and less on the

integrity and ability of the directors, managers and actuaries; and I should fear that, as a result, abuses would creep in, which, under the present conditions [namely, the conditions prevailing in Great Britain] are impossible.

These are the views of a careful thinker, who has given his life to this tremendous subject, and are quite in accord with the expression of the Armstrong Investigating Committee, as contained in its report to the Legislature.

In this report it said: —

The Legislature should aim to bring freedom of management, subject to general regulations and complete publicity.

Speaking of the value of the statute limiting first year's expense as contained in our present law, Mr. King says: —

The idea seems to me to be crude and ill-considered, and to be due to merely superficial thought on the principles underlying life insurance.

In view of the character of the present law, — which limits expense, which restricts the companies in the amount of business which may be written, which prescribes investments, which curtails surplus, and which provides forms of standard policies, — the present experiment which is being made in this State is certainly an interesting one; but it is not fair that in the analysis of the results which are accruing from the operation of that law, con-

clusions should be arrived at which are based upon a mere superficial study of the facts.

There are elements and tendencies in the present situation which are injurious and inimical to the interest of policy-holders. These facts are clearly seen by experts who have made life insurance a study; but there is no reason why these tendencies should not be known by the insured as well, and it is the duty of writers upon insurance to face the situation as it exists, and not to be misled by careless tabulations of statistics.

REMARKS AS TOASTMASTER¹

LADIES AND GENTLEMEN, ASSOCIATES, COUNSEL-LORS, FINANCIAL MENTORS,— In the name of the directors I welcome you all here to-night as friends. I know that you are all friends of the Home or you would not be here, because I made out the list myself. [Laughter.] There are no insurgents present. [Laughter.]

Before we go further, and you become too deeply interested in what I have to say,— because that will absolutely engross your entire attention,— I want to read a few letters which I have received and which should be presented. First of all is one from our first citizen, the President of the United States. [Applause.] I suggest that we drink a toast to him as a fitting commencement to our celebration.

[The diners rose and drank the health of the President of the United States.]

MY DEAR MR. IDE,— I am very sorry, but I fear I shall not be able to be with you on the 10th of May to commemorate the first fifty years of your company. I wish you the pleasantest sort of time.

¹ Delivered at a dinner given by the directors of the Home Life Insurance Company, May 10, 1910, at the Hotel Plaza, New York, in celebration of the fiftieth anniversary of the founding of the company.

The life insurance interests of this country are so great, and they have received such close investigation in the last decade, that I have no doubt they are now beginning a new epoch in their existence, and I sincerely hope that the new methods adopted will take away the opportunity for abuses and restore the public confidence in them which is so necessary to their continued usefulness.

Sincerely yours,

Wm. H. TAFT.

[Applause.]

I have hesitated to read this second letter from another President, but one who is very dear to me, because of the personal allusion, which I am forced to read as it is in the letter. This is from President Hadley, of Yale University.

MY DEAR MR. IDE, — I wish with all my heart that I were able to be present at the semicentennial anniversary of the Home Life Insurance Company. As this is impossible, I shall at least give myself the pleasure of sending a note of congratulation, both official and personal. It is a great thing to be associated with a company that has had such an honorable record. It is a great thing for the company to have a man like you at the helm. [Applause.] [Toastmaster — I am simply acting as secretary on this occasion.]

As a Yale man, I wish to congratulate you most heartily.

Faithfully yours,

ARTHUR T. HADLEY.

[Applause.]

We would have had the pleasure of having President Hadley with us to-night were it not for the

fact that the University of California will shortly celebrate also its fiftieth anniversary, and there being another man out there who has "Ide" for a middle name, Dr. Hadley had to go. [Laughter.]

When we were planning this dinner, one of the directors said, "I think it is a splendid thing. But are you going to have speeches?" I told him that I had a friend who once went to a hospital, having had certain vague, meandering feelings of discomfort which led him to think that it might be appendicitis. So he went to the hospital, and the doctors looked him over, and finally they said, "Well, you must be operated upon." He said, "Is it necessary?" The leading surgeon said, "No, no, it is not necessary, it is customary." [Laughter.]

So I said to this director — he is one of our most staid directors: "We have got to have either one of two things; we have got to have either speeches or vaudeville, and under the new régime vaudeville is not considered quite the thing." [Laughter.] So here we are. As I look along this line, it looks to me a little like a minstrel show, with myself as the middleman. In the minstrels, you remember, the middleman is simply ornamental. It is his part to serve as a foil to the bright sallies of wit which come from the men on the ends, so you must be prepared for the worst as it arrives. [Laughter.] It has become the practice to celebrate important anniversaries of individuals, corporations, and

States by appropriate celebrations. These have sometimes developed into mere lyceum lectures, but it has been found more successful first to give to the audience a substantial meal, and thereby insure their attendance, and we have, therefore, selected this form of entertainment.

Fifty years ago this company was started, or rather the thought was started. Mr. Stranahan, whom you all know by reputation, was the first citizen of Brooklyn, and he determined to start some sort of an institution,— primarily for the purpose of providing a place for Mr. Griffith, the first president. Mr. Griffith was a man of sterling merit, of great mental ability, and the question was, what sort of a company should they start. Mr. Griffith said to Mr. Stranahan, "I think we had better start a trust company." Stranahan said, "No, Walter, don't you do it. If you start a trust company, every one of your directors will know just as much about banking as you do, and you won't have any say in the thing at all. Start a life insurance company; nobody knows anything about that." [Laughter.] And that is the way we came to be a life insurance company. That sounds like a fairy-tale, but I had it from Mr. Stranahan himself, and he had a way of believing that whatever he said was so. [Laughter.]

Now, during the first ten years, Mr. Griffith, the first president,— always known in our board as

"Walter," — developed extraordinary ability, and I think it is no exaggeration for me to say that of the life insurance men of that particular day he was by all odds the most brilliant, the most aggressive, and the most capable official. [Applause.]

The great point about individuals, and I think it holds true of corporations, is pedigree. I know that in this country we are apt not to appear to pay much attention to that, but, at the same time, we respect it perhaps as highly as any other nation — and the pedigree of the Home Life is based upon the history and the character of the Brooklyn men of 1860. A great many New York men who are here gain their idea of Brooklyn from the common Manhattan definition of Brooklyn, which is a place noted for baby-carriages and rubber-plants and situated halfway between the City Hall and Greenwood Cemetery. [Laughter.] But in those old days, I assure you, there was an element of strength and stability in Brooklyn, which accounts for a great deal of the strength and the stability of this company. You must remember that Salem and New England poured in the good old blood of the Pilgrims, and it became mingled with the old Dutch stock of the strongest and the richest kind. We certainly had conservatism there. I know all about it, for I was born there and lived there for quite a while.

Now, these men were leaders in everything which

they undertook. I don't think I can show that better than by an anecdote — again referring to Mr. Stranahan. He was a witness in a certain case where action taken by the Union Ferry Company was criticized. One of the examining lawyers asked him: "Were you present at the meeting, and did you vote with the other directors in favor of this proposition?" He said, "I did not." "But you were there? The minutes show you were there?" "Yes." "And you voted for the proposition?" "Yes; but I did n't vote with the other directors; they voted with me." [Laughter.]

Now, I would like to go on and tell you all about this company, but if I did I would start my eulogy on too high a pitch. You remember the story of the revivalist who said, "Now, brethren, we will start that good old song, 'Ten Thousand Times Ten Thousand.'" It was started on too high a key, and the singer's voice gave out. Finally, some one in the rear shouted, "Start her at five thousand, brother." [Laughter.]

I want to say a few things about the Home, but I really don't dare to. The Home is not one of the greatest companies. You probably all know that. And I don't offer that in its praise. The whole object and endeavor of my life for the last twenty years has been to try to overcome that difficulty. [Laughter.] I have not succeeded very well as yet. I cannot see exactly why size should be looked upon

with so much suspicion. I don't believe that wealth is necessarily dangerous. Of course, there is a little truth in the story of Pat and the priest, where the priest said, "Pat, are you leading a moral life?" "Your worship," Pat replied, "how can I help it on five dollars a week?" [Laughter.] It is true that poverty acts as a restraint, but I can never get over the feeling that virtue which is simply the result of poverty is not the highest kind of virtue.

I do not know exactly how far to pursue this thought, but it seems to me that our State has made a most glaring error when it feels that it can correct the evils, particularly of our business, by restrictive measures. My experience in business matters may be limited, but I think the experience of all of you gentlemen will prove that perhaps ninety per cent, perhaps ninety-five per cent — it may be ninety-eight per cent, as some estimate it — of all men with whom you do business are honest. [Applause.] And I do not believe it is the part of a great State to curtail the usefulness, the power, the efficiency for good, of ninety-eight per cent in order to correct the evils of two per cent. [Applause.] Were the Legislature of this State to say, "We will limit the size of hospitals, of churches, and of schools," the citizens of this State would rise up in righteous indignation. And yet we all know that there has been dishonesty, that there has been extravagance and bad management, in some of our

hospitals and schools and churches. I hope the State may see the evil of that section which cuts down the volume of business. In fact, the reason our distinguished guest, the Superintendent of Insurance, is not yet with us is that he has been this afternoon attending a hearing at Albany on this very subject. He will be here later. It looks very much as though the State were about to take one little timid step into the right track. [Applause.]

Regarding this restriction of which we read so much in the papers, the reformers seem to feel they have discovered something new. I have studied this subject a little, and I find in the 24th Article of the Amsterdam Order of 1598 the following: "We expressly prohibit insurance on the life of any person, and likewise wagers upon any voyage or frivolous purpose, and where they are made we declare them void." And again, in the 10th Article of the French Marine Ordinance of Louis XIV is the following: "We forbid the making of any insurance upon the life of man." This was in 1681.

Now, our company is a child of this State of New York. We certainly, those of us who are in this business, have not forgotten it during the last five years. We have had a most fond and most attentive parent. We remember that "Whom the Lord loveth, he chasteneth." Judged on that basis, the love of the State of New York for the insurance

interests is past belief. [Laughter.] Some of it, gentlemen, has looked to me a little bit like the precaution of the old farmer who burned his barn to kill the rats. [Laughter.]

But the movement did not stop there. When these things get going they spread. You remember when the children of Israel were brought through the wilderness they had a very lucky time afterward. Two holy men went up into the mountain to receive ten simple statutes, which have been found to be pretty workable ever since. After the life insurance interests had been through their trip in the wilderness, forty-six Legislatures went right up in the air. [Laughter.] And you know what they have done. Our distinguished guest, Senator Dryden, says that during the last nine years, 86,000 laws have been enacted, 34,000 of which have affected business interests, including insurance. I would estimate roughly that 33,800 of these relate to life insurance. [Laughter.] Another distinguished gentleman has described these statutes as a mystic maze of multitudinous mandates. The situation is certainly complex, and I can quite sympathize with one of the staid New England Life presidents with whom I was talking one day. I asked him what he intended to do in regard to one of the new Wisconsin laws. He said, "I don't pay any attention to these laws. I have all I can do to keep the Ten Commandments." [Laughter.]

Now, gentlemen, to be serious. Under the surface there are certain tendencies which I think are extremely dangerous in this matter of legal restraint of corporations. Modern reform of business as enacted by our Legislatures does not attempt to make the man in power any better in his intentions or in his motives, but it simply aims apparently to surround him with such barriers that, however bad he may be, he can do the least possible harm. [Applause.] In the future it is possible that we may regret the enactment of these highly complex restrictive measures. The business man of to-day is constantly compelled to ask himself, Is this action which I am about to take legal? He should ask himself, Is it right and just and fair? [Applause.]

This is no time, of course, for a close discussion of these important questions, but life insurance men have had little else to think of during the last five years, and it is rarely that I have such an opportunity to keep you here to hear me. I simply wish to enter once more, on this occasion, my individual plea for simple and comprehensible publicity, coupled with individual freedom, as the most lasting panacea for the evils of our present business system. [Applause.]

If we approach this issue on these lines, I confidently expect that future generations, gazing back upon this hour, may say, in the words of Richard Watson Gilder: —

Then was the time when men were truly men;
Guarding the country's honor as their own,
Proclaiming service the one test of worth;
Defying leaguèd fraud with single truth;
Knights of the Spirit, warriors in the cause,
Of justice absolute 'twixt man and man.

[Applause.]

We are, however, struggling along under existing conditions, and some of us who have pretty fair digestions and a good degree of optimism think occasionally we see a little shift in the wind, a little change in the barometer, a little indication of clearing weather. In any event, the Home is prepared to sail along as she has during the last fifty years, straight on her course. We will put on all the light sails and ballooners and forge ahead when they let us. But if the conditions are bad, we will do as we are now doing — shorten sail and fight it out under storm canvas. [Great applause.]

Gentlemen, I offer a toast; it is to the Home, to her founders, men of sterling worth, to her history, unsullied, clean and above reproach, and to her future, resplendent with promise.

THE PROPOSED INCREASE IN FREIGHT RATES ¹

Mr. CHAIRMAN AND GENTLEMEN.—The decision of the question now before this Commission will have a potent influence upon the future earnings of our railroads, and upon these earnings will depend the value of their securities.

I appear for the life insurance interests, which represent an aggregate holding of railroad securities far beyond what is ordinarily believed. For whom are these securities held? The assets of life insurance companies represent accumulations to provide a reserve required by law against each policy, and also a surplus fund held for future contingencies. In all companies the reserve fund is distinctly maintained for the protection of each individual policy. The surplus fund belongs in part or whole to the policy-holders according to the character of the organization. In mutual companies it is entirely theirs. Let me cite a specific case to make my meaning clear.

In the company with which I am connected, the total admitted assets are \$23,600,000; of these

¹ Representing the Association of Life Insurance Presidents before the Federal Interstate Commerce Commission at a public hearing, November 26, 1910.

assets \$6,400,000 is invested in mortgage bonds; \$8,160,000 in railroad bonds; and in railroad stocks, \$705,000. Thirty-seven and one half per cent of the company's total assets is invested in railroad securities. About 45,000 policy-holders are the real beneficiaries and practical holders of these securities. It is not an intangible vague corporation which owns these bonds for the benefit of a few wealthy stockholders. The bonds are held sacredly in trust for 45,000 citizens scattered over the entire United States. These are the facts concerning only one of the companies, and a small one at that.

It is said that, if by reason of your action the earning power of railroads should fall below the requirements for dividends and fixed charges under existing or future conditions, the only sufferers would be the stockholders who would receive a reduced dividend. This is not a full statement of the case. The value of any prior lien is affected by the margin of safety over the lien. Take a mortgage loan on real estate. It is common practice to loan, say, \$60,000 on a conservative valuation of \$100,000. Suppose some law were to be enacted or some new condition created which should reduce the value of real estate so that this property, originally worth \$100,000, should be only worth \$80,000. In the first case, the margin on the loan is \$40,000. Under the new conditions that margin would only be \$20,000. The value of the investment

is impaired and yet the owner *may* continue to pay his interest. It is not necessary to wipe out all of the margin before the value of the security is affected. Why is it that so many of our States have laws requiring that a railroad company must pay dividends on its stock for a given number of years before its bonds shall be a legal investment for savings banks, unless it is because it is generally believed that by such a record of dividend-earning power the value of the underlying security is enhanced.

In investments for life insurance companies, the trustees of these funds seek safety, satisfactory interest return, and stable values. It is also of extreme importance to secure long-term investments, if possible. It is a trite axiom that credit is based largely on sentiment. If there is, for any reason, created in the mind of the financial world the slightest suspicion that our railroads cannot earn a fair living, then credit will be at once impaired, for buyers of these securities will not be found.

I am not here to plead for the holders of junior securities, although they have their rights, but I do wish to impress upon your minds the fact that if distrust be created, the bonds, the underlying securities, will be injured in their value. Who will suffer? As nearly as I can learn, of the entire bond issues of the steam railroads of this country amounting to \$9,118,000,000, the life insurance

companies doing business in the State of New York hold \$1,139,000,000, or one eighth of the entire railroad bond issues of the country. There are about 20,000,000 policy-holders in these life insurance companies, and they are all collectively and individually interested in the integrity of this investment. Any move which even sentimentally affects unfavorably the railroads of the land will strike a blow at these securities which will affect this vast army of thrifty citizens. It is not necessary to reduce railroads to a condition of bankruptcy before the value of the underlying securities is affected. For these policy-holders I therefore appear. They are not able to plead for themselves.

I know that in your deliberations you are giving to this momentous question the most careful thought and investigation, but it seems to me of vital importance that in arriving at a sound conclusion one should not overlook the fact that a false step at this time will affect seriously a vast number of our citizens who, unable individually to make their own investments in securities of railroads, are yet indirectly but intimately interested in their prosperity and well-being; and further, that your action will be considered as a precedent to guide the Commissions of our several States in their consideration of similar problems. The shipper, the jobber, the salesman, and the consumer all have rights of paramount importance, but the policy-holders and

savings bank investors must also be considered, for their interests are already vested in securities which have been purchased for their protection and profit, which were wise and conservative investments on the part of their trustees at the time they were made. The individual investor has his rights as well, but he is able to appear for himself. Under our general economic system the small saver who may become the future capitalist is a partner in these enterprises. Anything which affects unfavorably the prosperity and extension of our railroads will ultimately be felt by him, and his welfare is of vital importance to the upbuilding of our nation.

COMPULSORY SALE OF STOCKS¹

MR. CHAIRMAN AND GENTLEMEN,—In any proper consideration of section 100, regulating investments of life insurance companies, it is essential that we should bear in mind the circumstances which led up to the passage of this act. The report of the joint committee of the Senate and Assembly transmitted to the Legislature in February, 1906, as a result of the investigation, takes up the consideration of investments at some length. Referring to investments in securities and to the liberality of the former law, it is said by this committee that “the liberality of this provision has tempted life insurance companies to engage indirectly in enterprises foreign to the purpose of their organization through the control of subsidiary corporations; by means of stock ownership, some have practically transacted the business of banks and trust companies. One company has in this manner owned and conducted a restaurant, etc., etc.”

Then follows the statement that “purchases have been made not for investment but for re-sale

¹ Remarks before the Insurance Committee of the Senate and Assembly of the State of New York on the subject of the compulsory sale of stocks. (Section 100, of the Insurance Law.) April 26, 1911.

and the companies have freely furnished their support to numerous financial ventures through participation in the underwritings of syndicates."

All of the arguments apparently in this report bearing on this particular subject have to do with the question of future investments. In the summary, however, the committee made three recommendations as to future investments and then recommended the compulsory sale of stocks before December 31, 1911, without apparently giving any reason for this act, and further stipulated that "in each year prior to that date, the companies shall make reduction of the amount of such investments to an extent approved by the Superintendent of Insurance." This recommendation became a law. I have not found that any one has ever been able to determine exactly what was meant by this last clause, and, as far as I know, the Superintendent of Insurance has never felt like exercising any initiative in this regard by recommending the sale of stocks, and in fact, little has been done by the department in the way of approving the sales made by the managers of the companies. Had the superintendent exercised any initiative or had he withheld his approval from any sales which were made, the question of the constitutionality of this section could have then been taken up and then definitely passed upon before the expiration of the period required. The companies have apparently been

attempting to carry out the provisions of this requirement. In the case of the company which I represent, we have, since the passage of this law, disposed of 4678 shares of stock, and have on hand at the present time 8662 shares.

The experience of our finance committee is probably not peculiar, and the difficulty of the situation which has confronted us cannot be exaggerated. When the market has been strong and an inclination has been shown to sell stock securities which we held, the question has always arisen in our minds: "Are we properly caring for the interests of our policy-holders, if we sell stock on what seems like a strong market, when attention is given to the fact that having once sold these stocks we can never buy them back?" Many financiers are able to determine with more or less correctness the general swing of market prices, but he is, indeed, a wise man who can be expected to know when is the best time *once and for all* to sell securities which he is holding in trust for thousands of policy-holders, if he is never to be allowed to re-purchase when the decline which he expects takes place. Therefore, many directors have felt that it was the part of prudence and wisdom to hold the securities until the end of the five-year period, believing that the responsibility of possible future loss should be thrown upon the State where it belongs if this law remains upon our statute books.

The whole disposition of the managers of life insurance companies is to part with securities of corporations in which they hold *a large and controlling interest*, for it is evident to all managers that the present popular desire and feeling are that companies should avoid in the future the maintenance of such control as being opposed to general public policy.

It is my firm belief that, under the existing state of public opinion, this matter will gradually shape itself toward the final elimination of stock holdings, but I also firmly believe that this liquidation should not be forced, for if it is to be conducted in an orderly manner and to the best interests of all concerned, the management of this liquidation must be placed in the hands of the directors who are managing the company.

Every one knows that, in the matter of barter, nothing is so fatal to the securing of a fair price for any commodity as for the purchaser to know that the commodity *must be sold within a given time*. Where companies have had holdings of stock in other corporations, the knowledge of the existence of this statute has held the price at a comparatively low figure, and in one instance the rumor that such a large block of stock had been sold was sufficient to cause an immediate rise in the shares of that corporation.

This entire section 100 needs complete revision,

but possibly it is wise to postpone that act until there is less pressure and until proper time can be given to its careful consideration, but there can be no postponement in this matter of compulsory sale. Let us look at the justice or injustice of this provision: These stocks were bought under the existing law of the State at the time of purchase; they were acquired *in absolute good faith* under the direction of the boards having these matters in charge. It is certainly a most appalling exercise of State power for the State to insert such a mandate as is contained in this provision. Many of our best lawyers claim that the State has far exceeded its constitutional powers. Whether this be so or not, if the State is endeavoring to treat its creatures with fairness and justice, there is little excuse or apology which can be offered for this order. The penalty is such that a test of the constitutionality of the law is extremely difficult.

The question naturally occurs to the minds of the directors: As we are simply trying to protect the interests of other people, is it worth while to lay ourselves open to possible commission of a misdemeanor, in order to prove whether the law is constitutional?

I, therefore, appeal to this committee simply on the grounds of ordinary justice, and ask that we be allowed to hold these stocks for sale at such time as may seem best to our directors without further

regulation or limitation as to the securities *which we now hold.*

I also wish to emphasize the fact that I would have the same objection to a time limit of ten, fifteen, or twenty years as I have to the present limitation. It is the *injustice of the principle* which I wish to emphasize, and if it is admitted that the underlying principle is wrong, unjust, and unfair, it should not be allowed to remain on our statute books for one moment. It must be remembered that this entire insurance law was passed in a time of great excitement, and when popular clamor existed to a remarkable degree. Whether or not the public mind was justified in its attitude is irrelevant. It is the duty of our legislators carefully to consider from time to time the various provisions of our insurance law, and to eliminate from that law anything which seems to have been the result of popular prejudice or popular excitement at the time of its passage.

Economically, the provision is unsound. It is contrary to the basic principles of trade. The un-wisdom and injustice of this provision will possibly be better appreciated if we apply it in another department: The feeling exists in the minds of some that the real estate holdings of life insurance companies have been too large and that the extreme variance of opinion as to real estate values makes such holdings dangerous for a life insurance com-

pany, particularly in any calculation of its assets. Suppose the committee had taken this view of the situation and had said that life insurance companies must sell all of their real estate holdings within five years. What would have been the effect upon the value of such holdings and where could the companies have turned to find purchasers except at bargain prices? No one, I believe, will deny that such an act would have caused great loss to the policy-holders, and yet the principle is entirely the same and the effect identical when similar action is taken in regard to holdings of securities.

Whatever the result of the sale of securities may be to the policy-holders, the responsibility does not rest on the shoulders of the insurance managers. The State has stepped in and taken charge of our vested interests in stocks and upon the State must rest the burden, whatever that burden may be.

I opposed this provision on exactly these grounds in conference with the committee *before the law was enacted*. It was, I know, advocated and supported only in a half-hearted way by some members of the committee. As we all remember, the Legislature passed that entire act without deliberation commensurate with the importance of the interests involved.

I trust that the subject will now have your careful and thoughtful consideration, and that this provision may be entirely eliminated from our law.

THE SACREDNESS OF TRUSTEESHIP IN THE INVESTMENT OF LIFE INSURANCE FUNDS¹

THE far-reaching importance and magnitude of this subject are manifest, and naturally it is impossible to treat it exhaustively at this time. I shall simply attempt to cover a few points, trite and commonplace, which must be clearly understood and constantly borne in mind if we are to proceed intelligently in the discussion of the subject of the day, namely, "The Conservation of Life Insurance Funds."

The subject we are now discussing is a most serious one. It calls for conservative and clear statement. It must be approached fearlessly. I am only expressing my individual belief, and probably my views will not meet with favor in some quarters, particularly in view of the present attitude of public opinion.

Those of us who attended the Fourth Annual Meeting of our Association in Chicago two years ago remember the very able paper read by Professor Laughlin, of Chicago, on the "Study of the People's Investments." I wish to quote one or two

¹ An address delivered at the Sixth Annual Meeting of the Association of Life Insurance Presidents at New York, December 6, 1912.

sentences from his introductory remarks, which seem to be applicable at the present moment. He said:—

The situation to-day in our democracy is a curious complex of ignorance, progress, radicalism, intelligence, idealism, and conservatism. We must face the fact that problems, which should (and would in a country like Germany) be sent to experts for solution, must here be solved by a counting of noses in an electorate which means well, but is wholly untrained in abstruse subjects of vital importance. Everything depends upon getting the truth before a suspicious and distrustful community. We are a mercurial people who often move under waves of emotion without much discrimination.

Such was *his* feeling of the attitude of the public mind when he presented his able paper to this association. My feelings are very much the same in approaching the subject of life insurance investments, and the sacredness of the trust of their administration. I am confident, however, that careful attention to this subject, if we view it in the broadest way, will correct many misapprehensions and false ideas which unconsciously and gradually have crept in, and which, apparently innocent and inoffensive at the start, may, if carried to extremes, undermine the integrity of the whole system of life insurance.

First of all, it must be remembered that the assets of life insurance companies are bound to increase. This is an unavoidable factor under the system of

"level premium" insurance. There must be an annual addition to the reserve on each policy. The States require the maintenance of this ever-growing liability, and consequently we cannot escape the fact that the life companies are to be the depositories of larger aggregations of capital as the years go by. The problem of how to administer these funds, large as that problem now is, will constantly assume greater proportions in the future. The assets of companies doing business in the State of New York were \$24,000,000 in 1860; \$418,000,000 in 1880; \$1,724,000,000 in 1900; \$3,943,000,000 in 1911. Who can tell what these figures will be at the end of the next fifty years?

It is interesting to know how this fund is distributed. The assets of companies doing business in New York State are invested approximately as follows: —

Real estate.....	4 per cent.
Bonds and mortgages.....	31
Stocks and bonds	48
Loans to policy-holders	13
Cash and miscellaneous	4

There is another vital element in the situation. The premium rates are variously calculated on an assumed rate of interest to be earned, ordinarily 3, $3\frac{1}{2}$, or 4 per cent. Interest at the rate selected must be earned upon the reserve. That is, it is necessary to invest the general assets of the company on such a basis that the net interest return, after deducting

investment losses, investment expenses, etc., will be at least sufficient to equal the interest return on the reserve called for under the calculation.

From this very brief statement we see that the most important consideration before the trustees of life insurance companies is to invest these vast sums so that the principal is safeguarded and a proper rate of interest earned to insure the integrity of policy contracts.

The total amount of insurance in force in life companies in the United States was, on December 31, 1911, approximately \$18,000,000,000. Do you wonder that I say that this is a subject of vast importance? The soundness and permanence of this stupendous amount of insurance rest primarily upon the proper investment of life insurance funds by the companies' trustees. Can anything be more sacred than the care of these trust funds?

Possibly we can name a few fundamental principles which are essential in the administration of these stewardships.

First, Publicity. I would welcome any legislation which will make it possible for the public to know every detail of the investment departments of life companies. Anything which will lead to such knowledge, anything which will place such information before the public in comprehensible form, will do more than any restrictive legislation to break up dangerous practices and to correct abuse.

Improper syndicate operations (that word is now unpopular, but there have been good syndicates), speculative control of other corporations, underground channels by which securities are introduced and accepted with advantage to some inside clique, profit by trustees arising directly or indirectly from investments made, all melt away under the noon-day glare of publicity. Legislation in favor of such publicity is none too popular with some of our law-makers. It is not spectacular, and there is always the danger that these searching rays of publicity when their power is appreciated may be turned in unexpected directions. The unscrupulous legislator and the quasi-reformer always have to be on the alert lest the remedies they prescribe for others may be applied to themselves.

Second, Personal Responsibility. The trustees must be impressed with the importance and seriousness of their office, and maladministration should be followed by punishment commensurate with the magnitude of the trust. Such punishment to be effective must be directed against the *offending individual*.

With these two checks and safeguards, we have about all that is needed in the way of restriction. If you can unite simple, plain, and effective publicity with strict personal accountability, you are doing about all that can be done by legislation to enforce honest and careful conduct by the trustees.

Let us now look at some of the laws made to protect these funds. Efforts have been made to prohibit certain forms of investments. These efforts have usually been sporadic and short-lived. It has been virtually conceded that the greatest freedom of choice is necessary in the investment of such vast funds. New York State prohibits the purchase of stocks and collateral bonds where a certain amount of the collateral is in the form of stock. We all know why that law was passed. In the troublous times of 1906 it seemed to our legislators necessary. It was a method of checking certain abuses which could have been checked more wisely, perhaps, by other methods without placing on our statute books a law which apparently condemns all stocks and deprives us of the right to buy bonds of absolute security, and of a form which is daily becoming more popular because of its inherent strength. The compulsory sale of securities legally purchased was also insisted upon, but apparently the advocates of this measure seem willing to consent to extensions of time and are not very enthusiastic about its enforcement.

Other statutes of a negative character have been enacted, but they are of minor importance. When, however, the lawmaker arises in his might and begins to talk *affirmatively* and says to the trustee, "Thou shalt invest in this or that," then we find the trouble really begins. Professor Sumner in his

picturesque style says most reforms are the result of A and B getting together and deciding what C shall do. A and B may have no particular interest in what ultimately becomes of C, but if they have power enough they can make it very uncomfortable for him, and in their honest and misguided enthusiasm they may do him great harm. C is the "forgotten man," and I want to say a word for him.

The idea has arisen of late in the minds of some that each State or locality can best promote its own growth and prosperity at the expense of some other State or locality, which idea is exemplified in the efforts made in certain Commonwealths to pay their own expenses by heavily taxing foreign individuals and corporations who attempt to do business within their borders. Of late it has taken a new form. Compulsory local investment of life insurance funds has in certain localities been enacted into law.

When I hear the honest promoters of these laws advocate their adoption, I shudder for the future of life insurance investments. Never was a line of action proposed more inimical to the interests of the policy-holder. The impropriety of segregating the reserves (upon which these compulsory investments are usually based) and breaking up the funds of a company into different groups is apparent to students of insurance, but the idea that to these trustees, with their responsibility and per-

sonal accountability, some town, or county, or State shall say, "You *must* invest in our locality," seems past belief. When the lawmakers step in between the policy-holder and the trustee, whom he, the policy-holder, has chosen, and attempt to usurp the function of that trustee, what becomes of the trustee's responsibility, and who is going to satisfy the policy-holder, if in the future under such mandatory laws good investments cannot be found and bad or indifferently good investments have to be made? In this transaction the policy-holder is manifestly C, the "forgotten man."

Possibly it may be thought that I object to this interference because it comes from distant quarters of the country and from state authority. Not at all. I believe the same objection should be made to any form of interference with the trustees in the exercise of their legitimate functions.

In the last few years there has been a wonderful growth of new companies in all parts of the country. Loyalty to home interests has in many instances been the motive underlying their inception. Many older companies have felt that to meet this new competition they must in the investment department enter new and untried fields. Nothing can be more dangerous. The insurance and the investment departments of any well-regulated and conservatively managed company must be kept absolutely distinct. The agent when he says, "You

must invest money in my territory to aid me in securing new insurance," is pursuing as reprehensible a course as the State which tries to advance its interests by similar mandatory methods.

What, then, should be the basis of choice in selecting investments? There can be no specific rule formulated. One company has for years been investing its funds in farm mortgages. Its trustees understand that business. Its record and experience give it a sound basis for future action. It is proper and natural that that company should prefer this form of security. Another has made a specialty of large loans on city properties in all parts of the country. Another has placed its money in some few great centers. Others have made a specialty of municipal, state, railway, or general corporation securities. Why this divergence? It is perfectly natural, and it is sound. It is based upon the peculiar conditions surrounding each company, and upon the peculiar kind of knowledge and experience each company has. By this natural choice based on knowledge and experience, we are now securing a greater variety of investments than could be secured in any other way. There is nothing mysterious about the movement of capital. If one wishes it to come his way, he must court it by offering ample security, a satisfactory interest return, and friendly treatment. One of the most curious inconsistencies of our time is that many

communities which are most insistent in their calls for foreign capital are most outspoken in their condemnation of that article which they so earnestly crave.

There is only one way by which trustees of life insurance companies can be properly induced to enter new fields of investment. Not by coercion — not by threats — not by attack, but by education. It must be proved to the trustees that the security offered is sound, and that the return is ample, and then capital will soon seek these new channels, following the simple and immutable laws of economic gravitation.

One word more. If our insurance companies are to be sound and permanent, we must eliminate all sectional feeling. The original thirteen States made no progress toward union and strength until they began to realize that their interests were common interests, and that the Puritans of New England, the Hollanders of New York, the Quakers of Pennsylvania, the aristocrats of Virginia, and the Catholics of Maryland must forget their differences and unite for the common good.

Why can we not realize that in the field of insurance investments the same holds true? The assets of insurance companies have helped to build our cities, to construct our railways, to promote our industries, to develop our farms and to finance our municipal, our state, and national governments.

We can well afford to allow this divergence in investments to expand on natural lines. We must not try to force it in one direction or another by artificial stimulus which will inevitably be followed by discouraging reaction. We must remember always that the sole duty of life insurance trustees is a simple one; namely, to conserve as a sacred trust the enormous funds committed to their charge. They should not be persuaded by pressure from within or mandates from without to invest in new fields until they have explored most thoroughly the unknown land.

Life insurance is a national American institution. Here it has found its greatest and soundest growth. It is our duty to view the matter of life insurance investments on broad lines, if we are to handle safely and judiciously this aggregation of wealth. Petty individual interests must be forgotten; state jealousies and rivalries must be buried; sectional feeling must be eliminated. The trustees must be absolutely free in the administration of their trust to act on those lines which their own knowledge may dictate, free from carping criticism, free from outside pressure, free from legislative interference. This vast fund must be distributed without restriction except as it is properly and automatically restrained by the rules of common honesty and business intelligence, and by the unchangeable economic laws which govern the ebb and flow of

capital. All attempts to check or alter these laws will surely bring distrust and disaster. In handling these vast and mighty funds in which millions of our people are so vitally interested, there is no place for theoretical experiment or for the promotion of selfish interests.

It is simply inspiring to contemplate that confidence which leads to the entrusting of such an accumulation of capital to the management of others for the common good. Is not such a trust sacred? Do you wonder that the executives and trustees shrink from following blindly every new shift of popular fancy? Their only safety lies in careful, conservative action based on knowledge and experience. The real check, the real safeguard, is publicity and personal responsibility. Push these if you please to the limit, but remember that the promoter, the speculator, the greedy politician, are always eager to lay their hands on these funds, and the only defense between these hostile forces and C, the "forgotten man" (the policy-holder), is the conservative trustee. He needs the appreciative support of the insuring public.

THE RELATION OF EXECUTIVE OFFICERS AND FIELD MANAGERS¹

THIS subject which has been assigned to me is one to which I have given much thought, and with which I should be more or less familiar.

In these days it is popular in treating a theme like this to analyze and dissect it in every detail until in the hands of the expounder there is no life or soul or vitality left. This is the tendency now in the discussion of the relations between employers and employed, between capital and labor, between the various grades of social classes, and in the consideration of most economic and industrial questions. I have no sympathy with this method. When an intricate piece of machinery is taken apart, and the various component parts are spread upon the artisan's bench, one does not obtain a very inspiring notion of the marvelous mechanical creation, nor is it possible to appreciate its efficiency. Intimate knowledge of the details is absolutely necessary if we are to arrive at sound conclusions, but this knowledge is only a means to an end, and not the end itself. Take the burning questions of the day, how frequently in their discussion are the broad,

¹ An address delivered at the Fifth Annual Convention of the Home Life Agency Association, New York, January 14-15, 1913.

grand fundamental principles, upon which a sound social system must rest, lost sight of in a maze of unessential and confusing details upon which men are bound to disagree. To misdirected effort on these narrow lines is due the mass of special legislation, unwise restrictive regulation, and conflicting statutes under which the business world is now struggling, and which many well-meaning persons seem to desire to see multiplied and increased.

I shall, therefore, in this paper limit myself, as far as possible, to the fundamental principles which underlie the relationship of executive officers to field managers.

A life insurance company is made up of many departments, and a brief recital of some of these will indicate how varied are the matters which are placed under the direction of its executive officers.

First, The Insurance Department, which has to do with the framing of policy contracts and the calculation of rates through the actuarial department, the placing of new insurance, the collection of premiums, the conservation of the company's outstanding insurance, the just and fair treatment of policy-holders, the settlement of maturing contracts and death claims, the development and direction of the agency force, and with the physical inspection through the medical department of candidates for insurance, the selection of new risks, etc.

Second, The Investment Department, which has charge of the investment of the Company's funds.

Third, The Legal Department, to which are referred all matters pertaining to insurance law and all questions of a legal character.

Fourth, The Clerical and Accounting Departments.

To each of the field managers the executive officers, by written contract, entrust to a greater or less degree the care in a given locality of the collection of premiums on the company's outstanding insurance, the selection of agents to represent his department, the securing of new business, and a general oversight of the company's interest in his particular field. The manager's responsibilities and opportunities are large, but his powers, as far as the company is concerned, are sharply restricted and defined.

The above brief résumé gives the basis of the relations existing between the executive officers and the field managers.

Evidently, the latter have little or nothing to do with the investment department, the legal department, or the clerical and accounting departments. These field managers are, however, the bone and sinew of the insurance department, and their activities pervade and affect, to a greater or less degree, each one of the subdivisions of that department.

It is, therefore, in the development and exten-

sion of this insurance department that we find the executive officers and field managers working side by side, and it is to this department we must look for a clear idea of what the relation between these two sets of workers is and what it should be.

First of all, this relation must be based upon order and system. There must be a directing head. The industrial development of our nation has been rapid and intense. Close organization and combination have necessarily resulted to the advantage of all. Individualism has received a set-back, and now each worker, if he wishes to play his part effectively, must find his proper place in the intricate organization and do his particular task earnestly with due regard for the rights of those below him and due respect for the authority of those above him. The moment he begins to think that he, the individual, is supreme, that moment, by reason of his own egotism, and selfishness, he not only by his action renders himself ridiculous, but he loses his efficiency in the industrial world.

For instance, in an insurance company such as ours, the agents, clerks, and employees are all under the direction of the officers. The officers are responsible to and subject to the instruction of the board of directors and its committees. These are chosen by those members of the corporation who are entitled to a vote. These members constitute the corporation. The corporation is subject to the

State, and the State is the people. Do not forget that in this instance, we are all, officers and agents, part of an orderly system, and consequently subject to discipline and to restrictions which we must obey unless we desire to be classed in the category of disorderly and unruly members of the great industrial army.

† What, then, should be the ideal relation between field managers and executive officers?

Just at the moment, and I trust this condition may soon begin to wear off, we are as a nation too analytical. I have already alluded to this tendency. We are driving out of our daily life much of its sweetness and spontaneity because we think we should not do anything until we have studiously and exhaustively submitted that act to the most searching analysis as to the causes which lead up to it, the motives which inspired it, and the consequences which follow it. As a result, artificial and cold-blooded calculation takes the place of human judgment. In the making of our laws the same holds true. These regulations and restrictive laws now so popular reach down into every detail of our business, so that conscience and a proper sense of right and wrong are being replaced by statutes which prescribe what we may not do. The business man does not now ask himself, "Is my act right?" but "Is my act legal?" It will soon be old-fashioned to have an individual judgment as to what is

right and what is wrong. That is all being decided for us by our legislators. Do not be surprised, then, when I say I do not intend to dissect or analyze closely the relations between managers and field agents. It is not necessary. This relationship is simply based on fundamentals as unchangeable as truth. What are these fundamentals?

First, mutual respect. This needs no explanation. If you do not believe in us and we do not believe in you, chaos and disorder ensue, and business cannot be done.

Second, fairness and justice. Not only fairness on the part of the executive to the field force, but equal justice from the agent to us. Before we criticize each other, let us withdraw from the heat and passion of the particular point under discussion, look at it from one side, from the other side, from all sides, and then in a calm, judicial spirit determine what is best for all.

Third, charity. A proper sense of human frailty, with a spirit ready to condone human weaknesses wherever they may appear. An avoidance of fault-finding and criticism which accomplish nothing and simply engender ill will and bad blood.

Fourth, loyalty. This does not mean affection and devotion alone. The word means primarily voluntary submission to law. It means in our relations an intelligent understanding of the necessity of discipline, of order, and a ready and willing acqui-

escence thereto. This applies to agents and officers alike.

Last of all, community of interests.

I never could understand, and I trust I may never be able to understand where there can be any clash between the agents and officers unless some one of these fundamentals is violated. We are working for the same end, the upbuilding and strengthening of our company and of the business of life insurance in general. Unless either the officer or the agent allows himself to be led into false lines of conduct by self-interest, by improper ambition, or by other unworthy motives, there can be no clash. Our lines of work are parallel. Each party should help the other. We need no rules except the laws of common sense, we need no regulation save the regulation of a keen and fair conscience. Your association has been a help to us, and it will continue to be if these simple fundamentals are borne in mind.

When you asked me to address you on this subject, you may have expected a different presentation of it. That which I have given is commonplace — much that I have said is trite, but these old-fashioned fundamentals are essential. Our relations in the past have been happy, profitable, and even inspiring because they have been based on these fundamentals. May these same relations continue for many years to come.

THE WORK AND PROBLEMS OF THE EXECUTIVE DEPARTMENT¹

THE programme which I have received of the life insurance course now being given here indicates that the matter has been prepared with the most extreme care, and that it is your purpose to treat the subject exhaustively and to familiarize yourselves with all of the details connected with this most intricate business.

The subject which you have allotted to me is one which might be handled in a popular and general way, and an interesting paper could undoubtedly be prepared on these lines, but this would hardly meet your requirements. In fact, as I consider my subject, namely, "The Work and Problems of the Executive Department," it seems to me you are expecting an autobiography, a form of literature which has never appealed strongly to me.

However, in view of the fact that the subject has been chosen for me, I shall, without apology, endeavor to give you an idea of the duties and experiences of a life insurance executive. I shall try to show the great variety of problems which the executive has to face, and in so doing it will be nec-

¹ An address delivered at Western Reserve University, in connection with its course of lectures on life insurance, March 18, 1918.

essary for me to touch upon all of the departments of the business, many of which have been or are to be discussed by separate papers, and point out to you the relation of the executive to these departments. I can see no other way of laying the subject clearly before you, although this method of treatment is open to the objection that it is likely to be rather dry and uninteresting in places, and yet none of this matter can be omitted if we are to secure satisfactory results.

I am naturally glad of this opportunity of appearing before you, for possibly I may be able to clarify your understanding of the general subject which you are now investigating, and I trust I may be able to dispel the unwarranted views now held by some regarding corporate life in general.

In the first place, we must remember that corporations are nothing more or less than aggregations of individuals banded together for a common cause and purpose. There is nothing mysterious or incomprehensible about them. They are the natural and logical outcome of our complex and highly organized business life. They are necessary to our growth, they are effective machines for the upbuilding and development of our economic activities. The present prejudice against them which exists in certain quarters rests upon a nebulous understanding of what they are, an envious dread of their constantly increasing power,

or upon an exaggerated idea of certain evils which have been wrought in the past by unscrupulous or dishonest managers. I almost wish my subject were the "Value of Corporations to the Youth of the Country" that I might point out to you how their existence and promotion has opened to every one, with or without capital, with or without influence, vast fields of activity with assurance of success and adequate reward as the result of industry, originality, and brains. The young man of to-day leaves his university in an era when the world is calling for real service and all he has to do is to find where his talents can best be employed. There never was a time when a young man dependent upon himself alone could, with a sound education and fair personal qualifications, step out from his university into the great seething world of affairs with more confidence of ultimate success. This condition is largely due to the power which corporations have of searching out and discovering talent which may be hidden in obscure corners and of offering to that talent a proper channel for growth and greater efficiency.

This is all a passing and somewhat irrelevant comment which I feel I must make, for from experience I know how anxiously you are all looking forward to the development of your own careers with occasional misgivings regarding the future, and I want you to approach this subject with the feel-

ing that these corporations are a necessary and beneficent part of our present economic system, and that in all probability many of you will find in them the field of your future activity.

First of all, successful corporation life is dependent on close and intelligent organization. The work of the corporations must be divided among departments each with a well-defined scope of activity and each presided over by a head who is held absolutely responsible for the success and efficiency of his department. These chiefs must confer frequently and are compelled constantly to change their methods of work in order to meet the new conditions which are ever arising. This is true of all corporations — industrial, transportation, and financial. These departmental chiefs also report to the executive and are, of course, subject to instructions and suggestions from him. This brings us to a fundamental principle of corporation life. It is not necessary that the executive should be absolutely familiar with all details, nor is it essential that he should know how each department conducts its work; but he must know the net result accruing from each department — he must be able to pass upon its efficiency, he must be able to detect careless method and extravagant expenditure, he must be able to see that the output of each department measures up to the highest standard both in quantity and quality, and more than all

else he must be able to appreciate at all times the relative importance and value of the work of the various departments.

In other words, it is his duty to detect and eliminate injustice, waste, and extravagance, and to promote economy, efficiency, and proper coördination.

Another point must be constantly borne in mind. The executive is the servant and representative of the board of directors. The supervision of the board is primarily exercised by committees. The success of a corporation and of the executive as well is in a large measure due to the efficiency of these committees. In this connection it is only fair to state that on the subject of choice of directors there is at the present time an immense amount of careless thought and unwarranted statement based upon class prejudice and fallacious reasoning.

Following the plan of organization already outlined, we find that in the specific corporations we are considering, namely, life insurance companies, the following are the principal departments: —

1. The Actuarial Department.
2. The Clerical and Accounting Department.
3. The Correspondence and Claim Department.
4. The Reinstatement Department.
5. The Medical and Underwriting Department.
6. The Agency Department.
7. The Legal Department.
8. The Investment Department.

Let us briefly review these various departments in order that we may gain an idea of the scope and diversity of the work of the ideal executive.

The Actuarial Department: To this department is entrusted the calculation of premium rates, policy reserves, surrender values, surplus distribution, etc., and in consultation with the legal department, the framing of policy contracts. The work of this department is extremely technical, demanding the highest degree of mathematical skill, coupled with rare business judgment. It is the corner-stone of the company's structure, and upon its accuracy depends the success of the institution. In this line of insurance work there is vast opportunity for men of broad education and special training in this particular science. In general, it is wise for the executive, even if he has a somewhat intimate knowledge of the science of life insurance, to refrain from interference with this department, limiting his activities solely to the selection of the very best actuaries he can find and offering his counsel only in matters where business prudence or expediency are determining factors.

The Clerical and Accounting Department: Here we find the executive confronted by a mass of detail which is almost overwhelming, and yet he cannot afford to be ignorant of the methods of this department. Through it the funds of the company are collected from thousands of policy-holders and

distributed through the proper channels. He must know enough to assure himself that this is accomplished with accuracy and despatch. If this is not the case, he must himself suggest the remedy or select some new head who is able to do so. This seems like an uninteresting department and one so full of routine that the executive head of the corporation may almost look upon its workings as automatic. This is a grave error. Waste of labor, lack of system, retention of old methods which should be discarded, useless "red tape," in this department, are to-day sapping the vitality and retarding the progress of many of our otherwise well-managed corporations. Traditions if bad must be abandoned, dead wood lopped off, practical and safe short cuts adopted if we are to have true efficiency, and to accomplish this the alert departmental chief must always have the intelligent support and encouragement of his superior officer.

The Correspondence Department: With this department, for the purpose of this paper, we may link the claim department and the reinstatement department. These departments are all of great importance and have to be handled with extreme care if the best results are to be obtained. The policy-holders, scattered as they are over the whole world, have, in most instances, no means of communicating with the company except by correspondence. This correspondence is tremendously

voluminous and covers every phase of human activity. Coming from people in all walks of life, its variety is simply astonishing. It is inquisitive, analytical, flattering, serious, sarcastic, threatening, and appreciative. It must all be attended to promptly and tactfully. The policy-holder regards the executive as his servant, and he is right in his conclusion. Therefore, he administers his rebukes without apology, and frankness of utterance is a characteristic of his letters. In a well-conducted company, criticism from the policy-holder is usually the result of misapprehension on his part or arises from suggestion made by outside meddlers.

All these matters, small in themselves, require intelligent handling, for a dissatisfied or neglected policy-holder is a company's worst enemy. He loves to talk about his grievances. Take the matter of reinstatements. A policy-holder allows his policy to lapse. It is our duty to find out the reason. Correspondence is at once opened with him. If dissatisfied, he must be shown that there is no ground for criticism. If he pleads poverty, the company must help him if it can. All of his objections must be met. Can you not see that this requires judgment and discretion of the highest order?

Settlement of claims (endowments, death claims, etc.) is a matter of paramount importance. These settlements must be promptly made with the least

possible annoyance, trouble and expense to the beneficiary.

In all these relations between the home office and the policy-holder, courtesy and infinite patience are demanded from the company's representatives. But you will naturally ask, what has the executive to do with all this? No matter how large the company may be, the executive must keep a close watch on these departments and see that they are conducted in a proper spirit and, by his own action in his dealings with the policy-holders, set an example of polite attention and gentlemanly forbearance which will inculcate throughout the entire organization a realization of the fundamental fact that the policy-holder is the real proprietor in a life insurance company. Whether approached by letter or by personal interview, the executive must be accessible to the policy-holders and attentive to their demands, for it is always to be remembered that the influence exerted by the executive permeates every department and his method of procedure becomes the practice of the company.

In these departments of which we are speaking, the basis of successful work is proper treatment of the policy-holder. That treatment must of necessity oftentimes be apparently harsh, but it must be just, logical, and honest, and every effort must be made where there is a difference of opinion to convince the complaining member that the company's

position is sound. If this line of action is always maintained by the executive and insisted upon all through the organization, it is wonderful how much friction and discontent can be eliminated, for the great majority of complaints arise from ignorance or misapprehension.

The Medical and Underwriting Department: It is manifest that the selection of desirable risks involves first a careful analysis of the physical aspect of each case, which work naturally is delegated to the medical department. From the very nature of the case, the executive is not supposed to have knowledge on these subjects. All he has to do is to organize and equip the department efficiently and watch closely the results of its work. When it comes to passing upon the desirability of accepting a risk on account of its moral aspect, its environment, etc., or where business questions are involved, naturally the executive is frequently consulted, and in fact he should directly or indirectly watch carefully these decisions. His duties in this direction are too obvious to need further comment.

The Agency Department: Here is a field which demands the constant attention of the executive. This department is the center from which the life blood of the company flows. Upon its proper operation depends the company's progress and success, and in its management there is a demand for executive and administrative qualities of the very high-

est grade. The successful agent is alert, resourceful, intelligent, and self-confident. Conscious of his own ability in his particular sphere, he will not countenance restraint or dictation until he is convinced that such checks are based upon sound reasoning and are for the general good,—and there is no reason why he should.

To secure the services of such men, and what is more, to retain such services is no easy task. This, particularly the latter, can only be done by winning absolutely their confidence and esteem. I might almost say their affection. Possibly my own experience may have been peculiar, but in a comparatively small company, such as the one I represent, I know that the best results can only be obtained in the agency department when intimate relations are established and mutual confidence exists between the agents and the executive, and my observation leads me to believe that this is the case in the larger companies as well.

The life insurance executive, to be thoroughly efficient, should be a good agency man. I mean by that he should understand and appreciate the character of the work which is being done by the agents; he should be a student of local conditions in the sections where his company is represented; and by constant reports from the field, he should at all times have an intelligent idea of the net results accruing from the work of each important agency.

No company is so large that this cannot be accomplished by proper system, and to me it seems that without such knowledge upon which to base his general policy no executive can fully meet the requirements of his position. The agency department is the source of all growth, and unless a company is to lapse into general decadence and liquidation, there must be strong, intelligent, virile management of this department. To secure the best results, the agents must feel that at all times their individual work is under the close and sympathetic supervision of the executive. This all demands from the executive constant watchfulness, close, analytical inspection, and absolute fairness of judgment. It is a difficult department to direct successfully, but no executive has made a great success in life insurance who has not been able to meet its problems ably and wisely. Its requirements cannot be brushed aside or entirely delegated to others.

The Legal Department: In olden days the historian, who told his story in song, when he found himself approaching a difficult part of his narrative, was wont to pause and invoke the sacred Muses to aid him in his feeble endeavors. Would there were some wise goddess of life insurance upon whom I might now call for aid and guidance in describing this most trying subdivision of my subject. The legal department, which has to do with all legisla-

tive matters, is a busy part of our life companies at the present time, and the executive, if he wishes to be a law-abiding citizen, leads a strenuous life as he follows the vagaries of our various Legislatures. I wish to be moderate in my statements regarding the problems of this department, but I do not intend for mere reasons of expediency to understate the existing difficulties. They are a menace to the business and are not understood by the people at large. I speak frankly, for I believe you are seeking the truth whether it be agreeable or not. Virtually all life companies are creatures of the State, incorporated under state charters, and when a company of one State does business in another State, it has to comply with the regulations imposed by that State; therefore, if a company does business in every State, it is subject to forty-eight sets of statutes, which, when placed side by side, make a crazy-quilt of legal enactments which is dazzling and bewildering to any one who is not morally color blind. Some years ago the States in the main limited their activities to the enactment of laws covering the matter of taxes, licenses, etc., which were largely local in their application, and these laws, even if unwise in some instances, were defensible, because they covered matter within the natural scope of state authority. Of late, however, following the general tendencies of the times, the spirit of regulation has expanded, and now there is hardly a

single department of our business which is not the subject of legislation by some State.

As I am preparing this article, I find upon my desk a communication, marked "Attention of the President," which informs me that a hearing in reference to federal supervision of insurance companies is to be held in Washington on February 21; also in four States, bills are under consideration requiring compulsory local investments, and that four other States are about to prepare new insurance codes; that tax increases are to be advocated in three legislatures; and state life insurance in six. This is only the record of one day, but is interesting as showing how strenuous the situation is in regard to state legislation.

This is followed by advices that the Insurance Department of one of our important States is about to advocate the passage of a law which, as it appears to us, aims to provide that every company doing business in that State shall have one citizen of that State in its board of directors, and that the value of the vote of that director as compared to that of all the board shall be equal to the ratio which the company's insurance in force in that State bears to the total insurance in force of the company. If each of the forty-eight States were to adopt such a law, the charters of the companies would have to be changed to provide places enough in the boards, but I presume this is a negligible objection.

From January 1 to February 13 (forty-four days) I have received advices of nine hundred and eighty-nine proposed bills affecting our business, or an average of twenty-two per day. It appears to be a prolific year.

Deposits of securities in the various States without providing in many instances proper checks and safeguards, mandatory laws regarding investments (manifestly unsound and indefensible), laws regarding the interpretation of policy contracts, limitation of executive power, prohibition of transfer of legal actions from state to federal courts, laws regarding distribution of surplus, laws declaring policies incontestable for material misstatements in the application or for suicide in the early life of the policy: these are a few of the subjects touched upon.

Were we dealing with only one authority, it would be comparatively simple to meet the legislation of that authority, bearing with evil legislation for a time, and finally by education securing its repeal, but imagine the difficulty which presents itself to the executive when he finds that something which he is doing is legal in New York, allowed in Colorado, and prohibited in South Carolina. He has to consider in transacting the business in each one of these forty-eight States exactly what the requirements of that particular State may be. His only relief, when he finds the condition intolerable

is to sacrifice money expended in the past for development of agency efficiency, retire from the State, and leave the insurance which has already been written in that State as an easy prey to the attacks of competing companies.

It is only proper to say that the inclination of the broader men, among the insurance commissioners, is all toward securing uniformity of legislation, but the progress which is being made in this direction is necessarily slow and disappointing. The commissioners have not the power of legislation, and as a rule, when they have from experience gained a fair knowledge of the business, their term of office expires and they are succeeded by new and untried men.

Federal supervision is out of the question at the present time, for, under the ruling of our Supreme Court, life insurance is not considered as interstate commerce. The greatest difficulty of all is that this system of detailed supervision by the various States has led to legislation which I regret to say in many instances is based upon pure selfishness. The amount of premiums collected in a State is a matter easily determined from the annual reports. It offers a most alluring basis of taxation. If a scheme can be devised by a State by which a tax can be levied upon the premium receipts, and that tax, after being paid by the company, charged in its general expense account, nothing can be more

gratifying to the State imposing the tax, provided it has no civic conscience, and the citizens unfortunately are apt to indorse the action of their representatives who pursue this policy. The feeling seems to exist in the minds of many that taxes so levied are paid by a corporation, an intangible entity. Apparently it is not realized that this tax becomes part of the general expense and is charged against all the policy-holders. In other words, a policy-holder living in England, Europe, or Australia, if he analyzes the accounts of his company, finds that part of his premium has gone to pay the general expenses of the State of Kansas or Pennsylvania.

The total taxes paid to the various States in 1911 by life companies amounted to \$12,000,000. Real estate taxes are not included. Whoever benefited from these taxes, we must not forget that the policy-holders paid them.

I wish that I had sufficient time to call your attention to some of the specific and glaring differences in the laws of the various States which make it almost impossible for us to comply with all of the regulations, but I think I have said enough on this subject to show you what the real situation is.

These statutes have been described by one gentleman in the business as a "mystic maze of multitudinous mandates." When we study these various statutes we find that those which are open to criti-

cism arise in the main from an entirely mistaken idea of what true statesmanship should be, and from a lack of knowledge of the fundamental principles of our business. In these times our old idols are being destroyed. Our faith in the Constitution is being sorely tried, and our belief in the men who, during the formative period of our country's history, did magnificent constructive work, is now being shaken by attacks and by statements that what they did was unpatriotic and un-American. The idea of our government when it was formed was that the federation of the original States was for the purpose of mutual aid and assistance, and it was by the suppression of individualism that the country made its first progress. We find now running all through this state legislation on life insurance a manifest desire on the part of one State to get the better of another, and on the part of one class of citizens to reap advantage at the expense of another class. There can be no more dangerous or iniquitous basis of legislation than this, and if in connection with your study of life insurance measures you will make it a point to follow what is going on in the various States, you will see that there is not a particle of exaggeration in the above statement. I wish to lay particular stress upon this point, because it is the young men of our colleges who are to be the future members of our Legislatures, and it will rest with them to over-

come the present tendency on the part of Legislatures and commissions, which appear to be willing, on the most superficial observation and with inadequate knowledge of the subject, hastily to put upon the statute books drastic legislation that is bound to be injurious to all concerned.

In this connection the old saying occurs to me that "it is not so much the ignorance of mankind that makes them ridiculous as their knowing so much that is not so."

I wish it to be clearly understood that I am not opposed to legislation which does away with abuses and corrects evils and is for the good of the policy-holder. Such legislation is necessary, but should be simple, effective, and, as far as possible, uniform in the various States. It should rest upon a few broad basic principles, which are essential, and these should be thoroughly understood and appreciated before any legislation is attempted. Detailed supervision and regulation in so complex a business as life insurance is to my mind unwise and unprofitable. The remedy for evil rests in the main in clear publicity and in imposing personal responsibility, and these can be easily secured. I have great faith that in the future these evils will gradually correct themselves, particularly if the people take the pains to educate themselves thoroughly on these subjects which they are now so boldly attacking, and in view of my feeling I regard courses of lectures,

such as you have now initiated here, as a sign of great promise. Such educational means will in time surely do much to correct present tendencies.

Before leaving this part of our subject, I wish to emphasize the fact that my feeling is not entirely due to my point of view as an executive.

The Superintendent of Insurance of the State of New York, alluding to the difficulties arising from state supervision, says: "The frequency with which trouble of this kind seems to threaten, even if it does not actually always engulf us, makes me at times wish from the bottom of my heart that we could have a system of national supervision in the United States."

Investment Department: I notice by your programme that this department is to be treated in a subsequent lecture; therefore, it is not necessary for me to describe it at length. It is a very important department, and one to which the executive must give constant attention. The safety and integrity of the company's funds are of paramount importance. In the handling of these vast sums of money absolute integrity is essential and a high degree of courage and independence of judgment must be maintained. The executive must set his face firmly against the persuasive appeals of interested parties as well as against the mandatory requirements of other States whenever he feels that, by following the natural and easy course of

acquiescence, the interests of the whole body of policy-holders will be endangered. He must keep ever before him the sacredness of his trust and a proper appreciation of his own personal responsibility. I have spoken of the tendency in certain directions toward compulsory investment in local securities. There never was a more subtle or dangerous thought promulgated. It strikes at the heart of independent judgment; and, as a prominent writer on Insurance has recently said, "takes away from trustees substantially all rights of choice, all exercise of discretion, but does not at the same time relieve them of any responsibility."

Although this paper has already exceeded the length which I intended, I feel that I need not apologize, for you have given me a vast subject and I have touched only the main points.

In conclusion, we find that the "Work and Problems of the Executive Department" are most diverse and varied. They have to do with many different forms of activity. They are full of human interest, but above all it is the duty of the executive to stand always as the defender and champion of honest, legitimate life insurance. Just at the present time, when the air is full of vague theories and ill-digested plans for the amelioration of everything, the executives of life companies find the institutions they represent assailed by new and

dangerous schemes of reform. This grand bulwark, erected to stem the tide of national extravagance and to shelter our people from the economic loss incident to the uncertainty of human life, must be preserved in all its pristine strength and rugged simplicity. For years it has fulfilled its mission well. Let us beware how we tamper with its broad foundations or weaken its magnificent superstructure under the advice of quasi-engineers, who would substitute cheaper materials and methods for those which we have found so reliable in the past. The honest, upright, courageous executive, surrounded by a loyal band of trustees, who share his views and support him in his work, must be the defense between these hostile forces and the policy-holder.

ADDRESS AS CHAIRMAN
OF THE SEVENTH ANNUAL MEETING OF THE
ASSOCIATION OF LIFE INSURANCE PRESI-
DENTS, HOTEL ASTOR, NEW YORK, DECEM-
BER 11, 1913

GENTLEMEN OF THE ASSOCIATION,— Your executive committee has chosen me to act as chairman of this meeting. That you may not entirely lose confidence in that committee, I desire to say that as one of its members I voted in opposition to this choice.

Ever since our first annual meeting in 1907, when the keynote of this organization was so clearly sounded by our first chairman, Grover Cleveland, until the present time, our association has grown in usefulness and importance until now these meetings are national in character, and these proceedings are closely watched by all who have an interest, direct or indirect, in the grand institution of life insurance.

At the present time the idea is quite prevalent that evils may be cured by conversation and discussion, by magazine articles and brochures, by lyceum lectures and correspondence schools, and ultimately by legislative regulation and restriction.

Consequently many of us look askance at all conventions of special interests, fearing that something worse than that which we have already experienced may result from their deliberations. This association is unique. It is not formed for the purpose of reforming *others*. Its aim is to improve life insurance conditions in which we all are vitally and personally interested.

Besides its constructive work, of necessity a great part of its time and labor is expended in restraining unwise action and checking legislation inimical to the policy-holder. A and B, Professor Sumner's well-known reformers, have been particularly busy of late years in their tender solicitude for the welfare of C, and as A and B as a rule have little personal and direct interest in the subject affected, some one has to look after the poor forgotten C, the man most vitally involved, who in our case is the policy-holder.

Since the first of the year, our association has examined over twenty-two hundred bills proposed in our various state legislative bodies and affecting life insurance (in our opinion they were not all for the general good), and it has also been kept fairly busy in endeavoring to eliminate from proposed federal legislation certain features which would have run counter to the best interests of our business. This has all been accomplished by careful educational method and by clear explanation of

the points involved. So successful has this campaign been, and so dreaded are the visits of our representatives by some of the quasi-reformers that, in certain States, it is now declared by legislative enactment a crime to be seen talking to Mr. Cox.

To conduct this campaign of education, to keep track of this mass of legislation, to check it in its inception, where it is manifestly bad, to urge its amendment where that is advisable, to create a sound and friendly attitude of the public mind toward life insurance, to break down local prejudice and sectional jealousy, is an impossible task for each company to undertake acting independently and for itself. Economy and efficiency both demand concerted action.

At present combinations are not popular, but the fundamentals of life cannot be shaken by passing popular whims, and it will ever be true that disinterested organization and honest coöperation produce the best results.

A great mass of work is done each year by this association for the common good. Policy-holders' rights are conserved and protected. The true meaning and intent of life insurance is laid before the public by a policy of intelligent publicity. It sends its representatives to all insurance meetings and conventions. Discussions and analyses of new tendencies in our business are frequent and recommendations are made therefrom. The general

subject of health conservation, the maintenance of adequate health boards and bureaus of vital statistics, the activities of federal and state departments relative to life insurance — these and many other kindred matters are constantly being reviewed by our executive committee and by the association.

One wise result of this coöperation is the fair division of expense among the companies. In an address at one of our annual meetings by Mr. Peabody, president of the Mutual Life, he said that "the primary and fundamental purpose of the association is the furthering of a rational provision and apportionment among the companies represented in the association of the legitimate expenses which are necessary honorably to influence and preserve the rights of the companies in all matters relating to their business *where their interests are identical.*" It is well to note particularly the last clause of this sentence. Identity of interest is the corner-stone of the association.

During the first few years of the life of the association, the proper field for its activity had not been definitely determined. There are certain questions upon which life insurance executives cannot agree. Where competition plays a part, where the individual interests run in different channels, where the nature of the business is diverse and distinct, it is manifestly impossible to expect perfect har-

mony of opinion. The policy of the association has now become established. Experience has taught us to avoid these subjects and we confine our activities to those where the identity of interest is clear and established. I wish to emphasize this point, as it is misunderstood by some.

Our organization is each year becoming more extended and more effective. We have a library which is gradually becoming one of importance and a collection of pamphlets and books of reference which is very complete. General data and statistics are constantly being collected and scientifically tabulated until now, when any important question arises in insurance circles, the companies (whether members or not) turn to this association for information and guidance. This is as it should be.

My hope is that all companies of established age and of importance will realize that we have in this association a wonderful power for the uplifting and strengthening of our business, and that for their own good they should become active and supporting members. While urging this view, I also wish to reiterate the statement so often made that for the furtherance of the institution of life insurance all of the material which the association has in its possession is open at all times to all companies, whether members or not, and it is our hope that the advice and coöperation of the association may

be sought by all whenever desired without any sense of personal obligation.

Possibly one of the most conspicuous elements in the development of life insurance in this country has been the constant attention which has been paid to the ever-shifting demands of the public for new forms of protection. In other words, life insurance, as conducted here, is constantly changing in order to meet the ever-varying needs of the times.

This development has been most interesting and extensive during the last few years, due to the kaleidoscopic changes which are taking place in the public mind on economic and philanthropic subjects. Provisions for old age, protection to employees *en bloc*, workmen's compensation, improvement of health conditions, care of disabled wage-earners are all burning questions now — and it is the duty of the successful life underwriter to use his nimble wit so that he may make the policy fit the new demand. The subject is a broad and vital one, full of human interest. It is not for me to discuss it. The programme before me fairly scintillates with wit and wisdom. I shall keep you in suspense no longer.

[Applause.]

THE AGENT AS A STUDENT OF CONDITIONS¹

THE association of Life Insurance Presidents at its last annual meeting had as the subject under consideration the "Response of Life Insurance to Present-Day Economic Needs." In other words, the subject was "how to make the policy fit modern conditions." My theme to-day is "the necessity of making the agent fit the new conditions." Our country is still young and undeveloped, and we are as a nation suffering from the haphazard methods of the past. No better example of the way the development of the country has been conducted in the past can be found than by turning to the development of our farming industries. When the country was first being opened up, the pioneers thought nothing of conservation, but simply followed the line of least resistance. Crops were raised, soil impoverished, forests destroyed, without any thought beyond the near future.

We are now reaching the period where we discover that these methods are outgrown and antiquated and that it is time to take up the great question of farming on scientific and intensive

¹ An address delivered at the Sixth Annual Convention of the Home Life Agency Association, New York, January 13-14, 1914.

lines. The Government has stepped in behind this movement and is furnishing information and assistance to the farmer based upon careful scientific research. Under such a system our production is increasing in quantity and quality, and the future of the country in this department is now assured.

The same has been true in life insurance. It was comparatively easy in the old days, with little competition and with little knowledge on the part of the public of the science of life insurance, to sell policies which were simple in their terms, which did not always meet the requirements and necessities of the purchaser, but which were forced upon him by clever salesmen who thought little or nothing of the development of their business as extending into the distant future. It often occurs to me that the modern salesman of life insurance is not sufficiently alive to the change which has come over his profession and that he is apt to adopt the methods and practices which were natural and successful years ago in the infancy of the business. The agent of to-day must be a student, not a book-worm or a theorist, but a close-thinking, keen-minded, analytical student of existing conditions and of future necessities, if he really wants to know what to do and how to do it effectively.

Here are some of the simple yet difficult problems which confront him. How to become an important

member of the community? A general agent must be known and respected. Suppose a successful business man, in looking over his accounts at the end of the year, decides that there is one weak point in his business system which can be corrected by the application of life insurance on proper lines. To whom does he naturally turn? Would he be likely to consult the flashy, irresponsible, talkative, "fly-by-night" agent who occasionally comes to his office with some rainbow-chasing proposition? Not at all. He remembers that there is a quiet, unobtrusive man who has been his neighbor for years, who has during all that time represented one company, who has always been regarded as thoughtful, honest, and reliable, and to him he turns for advice. How can such a reputation be established? First, by remembering that permanency and stability are rare traits in this country, but none the less valuable on that account. The rolling stone gathers no moss, but it does frequently kick up considerable dust, and who wants moss, anyway? This is the point of view of the average American, but nothing gives so much strength and force to character as long connection with one vocation in one place. Thoroughness is much more valuable than flippancy, though probably not so spectacular, and it is infinitely more convincing. One cannot, however, afford to be a nonentity in his home town, for if he is, the longer he lives in one place

the worse it is for him. Any man to be successful must be permanently connected with some form of good local work.

Tastes do not all run in the same channel, but in every community there are lines of religious, philanthropic, educational, or social activity, all good in their way and all necessary for a well-rounded social development. In some one of these departments, every man can find a place where he is fitted to work and where his work will be felt, and it is the duty of every man to spend a part of his time in good work for which he is not directly paid. It is not necessary to join expensive clubs or to enter into activities that mean the expenditure of large sums of money. What I desire to emphasize is the responsibility which rests upon every man to make himself an important factor in the development of the community in which he lives.

Another problem: How to systematize his work? I have known many agents who have been ruined by roll-top desks and card indexes, but I am a firm believer in system and method. For instance, the successful general agent must have a constant supply of workable "prospects" both for his own use and for the use of his sub-agents. Every agent must have some reason to give, when he enters a man's office, for the intrusion. He should have well-tabulated data on the probable insurance requirements of the prospective insurers in his city or

territory. He should keep constant watch of the other insurance men in his field. Changes are constantly occurring and good men in consequence are often seeking new employment. Now, how can this information be obtained? There are hundreds of ways. Some appeal to one class of agents. Others appeal to others. Keeping birthday records and records of when the age changes is one of the oldest and simplest. One successful agent whom I know carries with him constantly a book in which he jots down any information which comes to him, directly or indirectly, as to the amount of insurance carried by men in his territory. Another agent has a carefully tabulated list of men, giving their financial standing, with the changes in this condition from year to year, the family conditions surrounding each man, etc., and in that way is really on intimate terms with probable buyers in his community. It was this man who made the remark to me that he regarded every man in his city as a "prospect" until the contrary had been proved. Yet I never knew a man who approached his prospective clients with greater delicacy or tact and whose calls were apparently more welcome and well received. Every one recognizes the importance of the sort of information to which I have alluded, but it is only the wise and trained man who can systematize and tabulate this information so as always to have it at hand.

Another problem: How to gain sufficient knowledge about his own and other companies? This, of course, will depend largely on the mental tendencies and peculiarities of each agent. Do not try to be an actuary and do not try to be an executive. It is not necessary to be either, in order to be a successful agent. What the agent should know is the basis of the science of life insurance and its fundamentals and essentials. Instead of endeavoring to accumulate a mass of superficial knowledge, let the amount of knowledge be small, but let it be thorough and accurate. You can then defend your company from unjust attack, and when necessary explain the science of life insurance in a simple and intelligent manner. One thing the agent should do in this connection. He should be a constant student of the tendency of new thought. He should not be carried away by the fact that these proposed changes appear to make the selling of his policies easier. He should study these new suggestions both as affecting the insured and the company, and after carefully considering the matter from all sides, he should decide whether the tendency is good or bad. The difficulties which confront us now in the handling of our business are largely due to innovations and so-called improvements which were inserted in our policy contracts years ago simply for the sake of making them more readily salable.

Following the line of personal education, the agent is confronted with the question of how to post himself on general conditions, and on the great social, religious, and political problems of the day. In suggesting the best way to accomplish this, I should commence by stating first what not to do. Do not allow yourself, under any circumstances, to read the so-called popular and "muck-raking" magazines. Like the "penny dreadfuls" and the "dime novels" of old, they do an immense amount of harm, not only because they spoil all literary sense and all literary taste, but because they are full of exaggerations and misstatements. Collect your own facts from reliable sources and draw your own inferences. Remember that every intelligent man has a right to think even if he arrives at false conclusions; but he cannot be forgiven the adoption of false conclusions which he accepts from another without personal investigation and research. One of our greatest national perils is the adoption of half-baked theories because they seem radical and attractive. They are the patent medicines of our social life, stimulating the national system artificially and leaving in their trail the dull and discouraging reaction which always follows over-excitation.

The agent, in his rounds, meets the banker, the lawyer, the clergyman, the business man, the wage-earner, — in fact, all classes, — and he must

be so well posted himself that he can in an interesting, sound, and intelligent way discuss these important questions, and he must also be wise enough to know that the best possible impression is created by acknowledging ignorance when one is ignorant on any given topic. It is essential that the agent should be conservative in his views and well grounded in his opinions. In no line of his intellectual activity is patient study and careful reasoning more necessary than on these general topics.

All this is elementary and almost self-evident, but, as I view the situation, thoughtful men are beginning to tire of the modern complex and intricate cure-alls which are being offered as the remedies for existing ills and are beginning to turn back to the old-fashioned and, alas, forgotten first principles. Character and intellectual soundness, after all, are worth more than the superficial thought of modern times, and in any walk of life the man who has "found himself" and who can be relied upon is the one who is sure to leave his imprint on the history of his community. It is at this time of the year excusable if one sermonizes, and I simply want to leave one thought in your minds for this coming year. Yours is not a transient business. You are not dealing in goods which will wear out in twelve months. Your clients are entering into contracts which will run for many, many years, and upon the integrity of those contracts depend the

happiness and comfort of their wives and children when they are gone. No words can exaggerate or overestimate the sacredness of your trust. These clients are depending, not only on the strength of your company, but on your wisdom and truthfulness. If there is a profession more honorable or more serious I do not know it. If you are to be a faithful trustee, you must, of course, be honest (that goes without saying). You must be more than that,— transparently honest,— yes, and more than that. You must be wise, discreet, intelligent in your suggestion, forceful in your argument, far-seeing and sagacious, human in your feeling and tactful in your relations with others, sound in your reasoning and modest in your demeanor. To sum it up: you must be a well-rounded, clear-thinking, Christian gentleman.

PRESENT BUSINESS CONDITIONS¹

THE student of the economic development of our country will, in the future, turn back and look at this present period as one of intense interest and full of instruction to those who view the conditions analytically and dispassionately. It may also be enlightening for us, who are in the thick of the contest, to pause a moment and look about in the hope of finding the causes of our present difficulties and possibly some solution of the vexing questions which surround us.

We have become so familiar with the recent wonderful growth of our country that we may have lost sight of the effect of this growth upon our national temperament and habit of thought.

A glance at the following figures is enlightening:

Total bank clearings.....	1883	\$51,643,495,000	
	1913	169,550,000,000	
Immigration — number of arrivals.....	1860	150,000	
	1913	1,197,000	
Deposits — New York Clearing House Banks	1876	\$216,900,000	
	1913	1,343,000,000	
Volume of foreign trade.....	1867	681,615,000	
(Imports and exports of merchandise).....	1913	4,276,979,000	
Production.	Wheat. Bushels.	Corn. Bushels.	Cotton. Bales.
1860	173,104,000	838,892,000	3,849,000
1913	763,980,000	2,446,988,000	14,250,000

¹ Circular sent to all policy-holders May 20, 1914.

	Iron. Tons.	Copper. Lbs.
1860	821,000	16,128,000
1913	31,000,000	1,280,000,000
(1913 figures in part estimated.)		
Gross railroad earnings	1871	\$403,329,000
	1913	3,171,445,000

Without presenting further statistics, these figures suffice to show the marvelous growth of our nation in production, in transportation, and in general commercial activity. Such expansion naturally called for great courage, constructive ability, and shrewd foresight on the part of our leading business men. It developed intense inventive activity and close organization. It caused a tremendous strain upon personal and corporate credit, and naturally made it possible for certain leaders to amass great fortunes. As the opportunities for growth became greater, combinations and consolidations grew in popularity as leading to economy of administration and greater stability for our industries in time of stress.

All these increasing activities were good for the individual and the nation, but while these beneficent changes were going on, certain abuses crept in, which we are bound to consider in arriving at a fair estimate of our present situation. While many so-called "captains of industry" were amassing these great fortunes by perfectly fair and proper means, the prevailing conditions also offered extraordinary opportunities to the clever but less scrupu-

lous leader for advancing his personal interests by shrewd but dishonest methods. Here the trouble began, but all of our present difficulties cannot be laid at the door of these adventurous individuals. "Labor" began to see that it was a most important factor in the situation, and in some instances the methods adopted by its leaders were as unscrupulous and as much to be condemned as those of the most radical and untrustworthy capitalistic promoter.

In brief, most of the troublesome factors in the business world of to-day are the result of unfair, dishonest, or misleading methods on the part of the capitalist, on the one hand, or the representative of labor, on the other. These questionable methods did not prevail on either side except in a minority of cases, but they were made the basis of bitter denunciation and attack until in the minds of the superficial observer the whole fabric of our business life seemed honeycombed with fraud and deceit.

Gradually this constantly increasing business activity, this rapid accumulation of great individual fortunes, this concentration and consolidation of business interests began to attract public attention, and then a new factor was introduced in the situation.

The magazines and journals of the country took up the subject. The "era of muck-raking" began. This was followed by political activity and legis-

lative investigation. In the upbuilding of our prosperity there was produced a crop of dishonest and scheming business leaders, and in the reform movement, likewise, we find the selfish demagogue and the unscrupulous reformer working side by side with the constructive and high-minded statesman. Neither movement was free from criticism, and it would be difficult to determine whether there has been more to condemn in the upbuilding process than in the corrective movement.

The State of New York led the way in the "new thought," and in 1905 the life insurance companies were the subject of a grilling investigation which developed the last and probably the most serious phase of the present situation. The Legislature having found, by failure to prove the contrary, that the system of life insurance was intrinsically sound, proceeded to correct every infraction of proper practice by statutes regulating the business in greatest detail, limiting its volume, and destroying to a large extent personal initiative and freedom of management. This was the first gun fired in the great conflict, and although this legislation has not been copied by any other State, it gave tremendous impetus to the cause of federal and state regulation of business in general.

It is unnecessary to rehearse all that has followed since in the way of legislative enactment and interpretation. We all know what the result has been.

We now have three parties in the field, almost in a state of active warfare — the capitalist (by that I mean every man who has any money invested, be the amount great or small), the employed, and the consumer. Each is a necessary part of our economic system, each has a distinct point of view, each is trying to better his own condition. The great question before us is how to reconcile their differences and eliminate the friction which at the present time is retarding our material and industrial growth. The popular panacea at present is legislation. For example, in 1913, the Association of Life Insurance Presidents examined twenty-two hundred new bills bearing on the subject of life insurance, and this is only one department of business activity.

In the minds of many, possibly of the majority, there is no abuse in business which cannot and should not be corrected by special legislation. Certainly this is a cumbersome and ineffective method if permanent adjustment of existing evils is desired. From the very nature of the case the unscrupulous legislator, acting for his constituency, is apt to vote and work for its interest without regard for the fundamentals of fairness and justice to all. If he can tax life insurance companies composed of policy-holders from all parts of the world to meet the financial burdens of his own State, if he can put through Congress a bill which will make

the very rich bear all governmental expenses, if he can cut down the revenues of corporations in which his people are not interested as owners, in the hope that as consumers they may secure lower prices, why should he consider whether these laws are based on the old-fashioned principles of equity and justice? If these legislators are correctly reported, do we not find that in many cases they openly and unblushingly base their appeal for reëlection on the success of their efforts to "do" the other class?

We see, therefore, that the main causes which have led up to our present condition of unrest are the phenomenal growth of our country in material wealth; the abuses and improper methods of *some* of the leaders in our commercial and industrial development; the selfish, dishonest, and tyrannical attitude of *some* of the leaders of labor; the exaggeration and exploitation of these facts by unscrupulous writers in our daily press and magazines; the offering of detailed regulative legislation as the universal cure-all; and lastly, the untiring activity of political demagogues, whose main aim is to keep the public mind in a state of turmoil that they in the prevailing confusion may be conspicuously in the "limelight."

If there is any truth in the above conclusions, the remedy seems to suggest itself from an analysis of these disturbing causes. Each of the above factors is based upon wrongdoing. It is not the busi-

ness head, nor the labor leader, nor the journalist, nor the political reformer who has caused the trouble unless he has pursued his activities on dishonest, improper, and selfish lines.

It is time that as a nation we learned again the fundamental fact, axiomatic in its simplicity, that every part of our body politic is dependent upon every other; that no part of our country can reach the highest grade of progress unless it first recognizes its dependence upon every other section; that labor cannot survive without the support of capital, nor can capital find employment unless labor is at hand. Is not the solution to be found in the elimination of that which is morally unsound from all parts of our business and political life? Is it too visionary to suggest that, if the good in all departments should unite to fight the battle for the common weal, the solution would be near at hand? In view of the envies, the misconceptions, the bitter jealousies that now exist, the first step would have to be toward a better understanding between these warring factions. Ignorance of each other's needs and ambitions, mutual distrust between the classes, is the root of our trouble. Union is always a source of strength, but why union in one class against union in another? Why not a *universal union* of all classes, capitalists, labor, journalists, legislators, in a real honest search after truth; this movement to be free from crimination and

recrimination and to be conducted on lines of mutual concession and respect. Such a union of all interests is possible only if we can create a quickened moral sense. A true, manly, honest, *moral revival*, without cant and without hypocrisy, is what we need, and in this lies the real solution of our troubles.

ADDRESS AT THE DEDICATION OF
WRIGHT HALL, YALE UNIVERSITY
NOVEMBER 23, 1913

THE graduate, who, from time to time, returns to New Haven, is impressed by the constant growth of the University as evidenced by the number and character of the buildings which have been added during the last few decades. A study of these improvements shows that while, for obvious reasons, the growth could not in every instance be directed upon the specific lines which the authorities desired and considered most important, yet there has been underlying this whole movement a broad and well-defined general plan, the accomplishment of which we now begin to see.

The movement for the construction of this building which we are formally opening to-day has been full of interest, both in its inception and accomplishment.

First of all, — and I must speak of this, even at the risk of embarrassing my modest friend, Dean Wright, — we felt that we must erect a lasting memorial to the faithful service which, as Instructor, Professor, and Dean, he had consecrated to the College, — I use the word “consecrate” advisedly, for there was in his work that singleness of purpose,

that high sense of duty, that perfect devotion to Yale to which he had subordinated every personal interest; and, further, we felt that we desired to pay a proper tribute to that rare character which by its gentle firmness linked in a most unique and delightful way the aggressiveness and activity of the present with the calm scholastic spirit of the past. It seemed to those who had the matter in charge that if this memorial could be expressed in the form of some practical addition to the equipment of the College, it would best perpetuate and convey to future generations the motives and ideals which have been the bases of his life work. In his study of undergraduate social life, Dean Wright had learned that if the spirit of true democracy at Yale were to be perpetuated under present conditions, it was essential that the novice just entering the new circle should at once become a part of the College, and the University,— that he should immediately throw off past associations, or at least subordinate them to his new surroundings and become in reality a member of the broader Yale community, untrammeled and unaided by the close affiliations formed during the period of preparation for his University life. In short, that all freshmen should stand on an equal basis with equal opportunity to make the most of membership in the undergraduate body of Yale College. This, he knew, could be best accomplished by providing sufficient

accommodation in the College dormitories to house all undergraduates. WRIGHT HALL, which makes this possible, carries to realization one of Dean Wright's fondest hopes; it represents one of his most cherished ideas; for all time it will emphasize a fundamental principle in Yale social life.

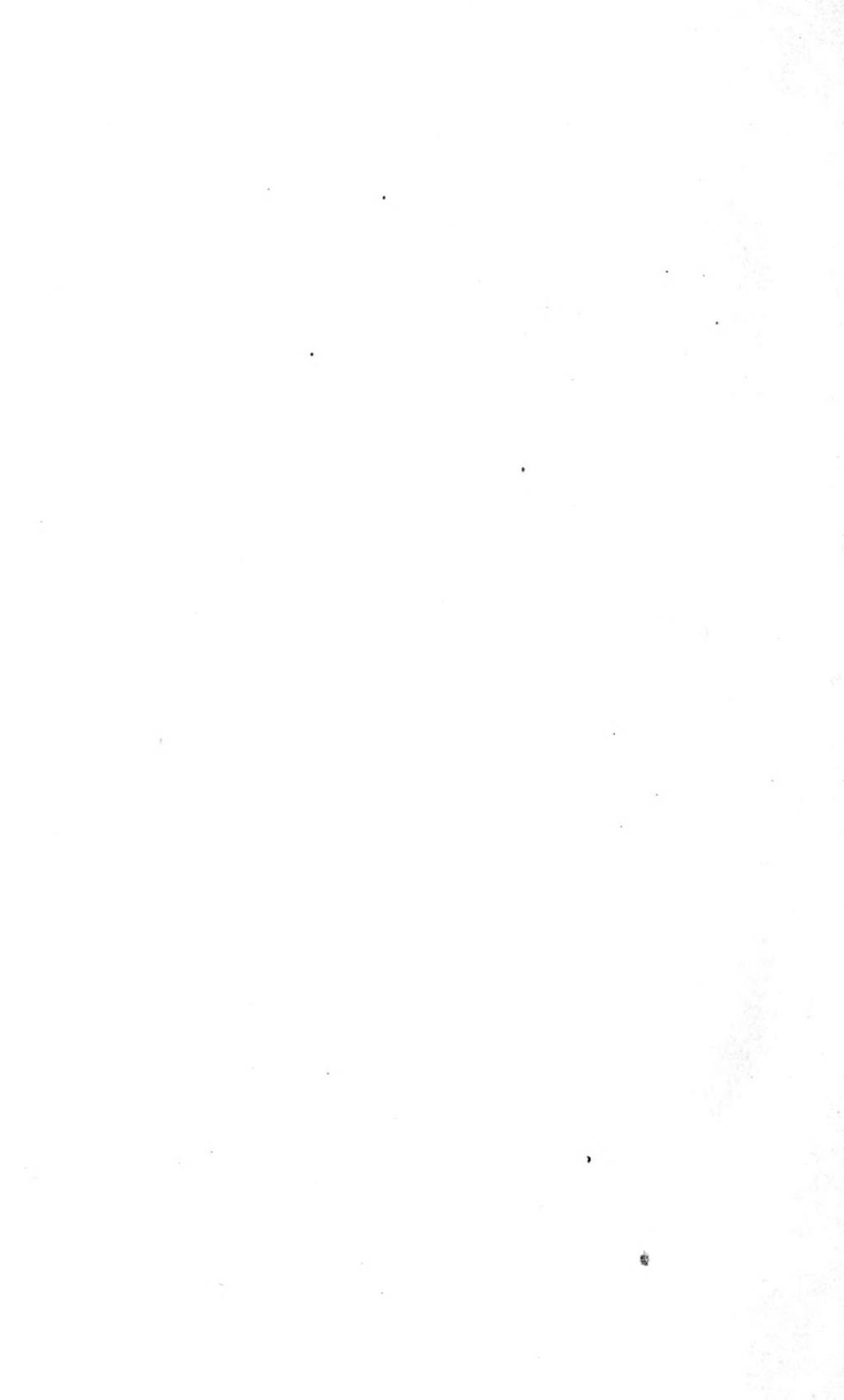
But this is not all. It is also an illustration of the loyalty and devotion of the great body of Yale alumni. This building does not represent the generosity of any one man, or any small number of men — many contributors made this work possible. Built to preserve the spirit of Yale equality in the future, it is itself the exponent of that spirit which Yale has so religiously fostered in the past. Men of all ages and of all stations joined in this tribute to a noble man and a noble idea. Rich and poor alike responded to our appeal as soon as the matter was brought to their attention. I wish I could with propriety tell you of some of the very small subscriptions which were doubly impressive because of the personal sacrifice they entailed.

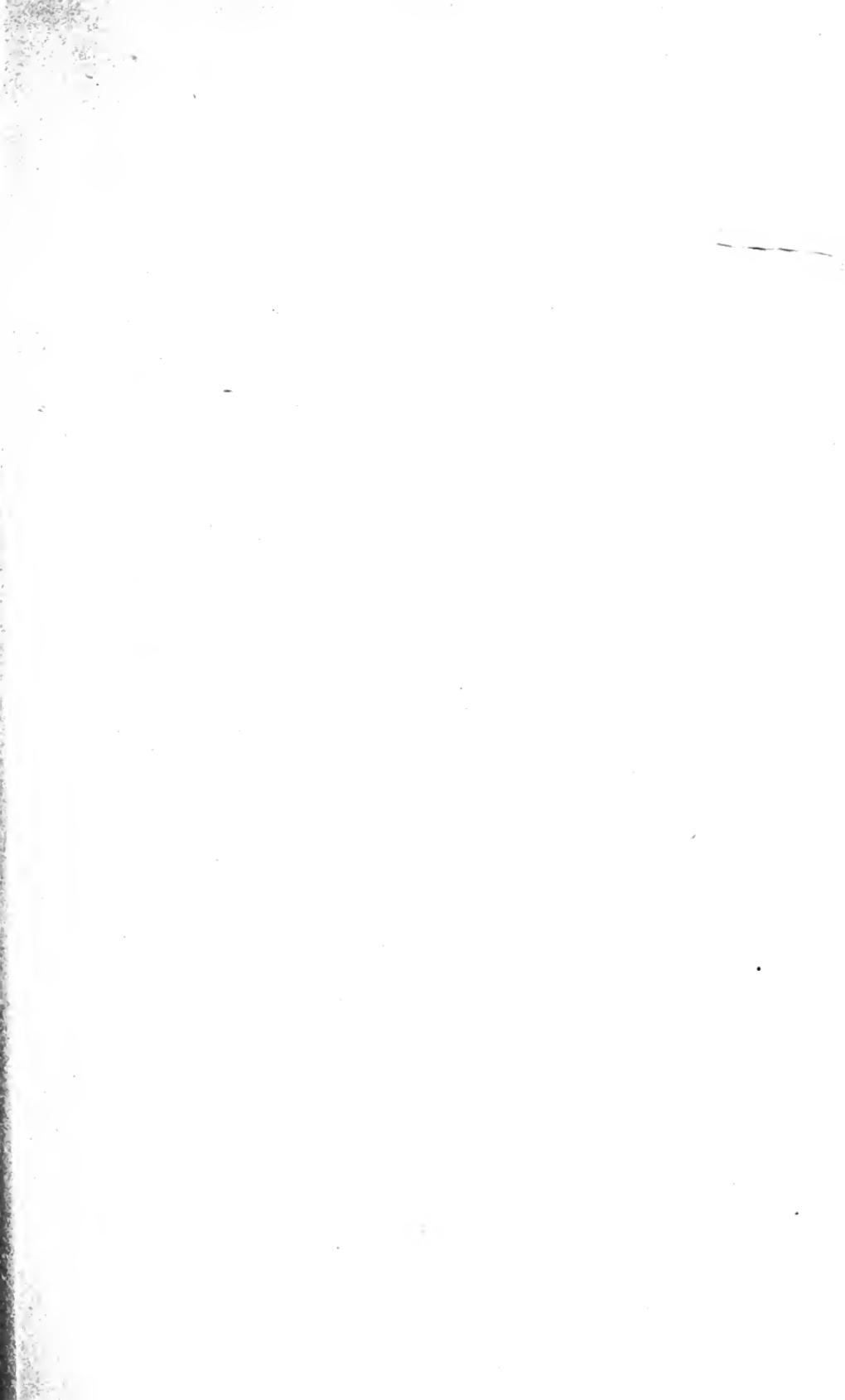
One of the largest gifts was a bequest from John Burnett Collins, of the class of '81; others were received from various classes and others still were in the form of individual memorials. It was thought proper to perpetuate the character of some of these contributions by suitable tablets which have been placed in some of the suites and entries.

I have been asked, as representing the donors and the Graduate Committee, formally to present this building to the University. This I now do, Mr. President. Rarely has there been placed upon the College grounds a building so full of human interest and of lofty sentiment. It stands as a tribute to a noble son of Yale, as a mark of our affection and esteem. It represents the unification of undergraduate life and in great measure the solution of one of our most perplexing social problems.

In the distant future, the associations of the past will cast the soft halo of fond reminiscence over this classic Hall, but from this very moment may it ever stand as the exemplification and the symbol of Yale Loyalty and Yale Devotion,— a monument to deeds which have been done and a grand uplifting inspiration for future achievement.







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